NEWSPAPER OF THE YEAR

FINANCIAL TIMES

Tuesday July 14 1992 EUROPE'S BUSINESS NEWSPAPER D8523A

Serbs escalate attacks in Bosnia after PM's speech

Serbs stepped up their offensive throughout Bosnia after Serbian prime minister Radoman Bozovic swore never to cede "one inch of territory" inhabited by Serbs. In the Bosnian capital Sarajevo, the UN said the relief airlift to the city hung by a thread. Reports from Gorazde, an east Bosnian town besieged by Serbs for nearly four months, said houses were in flames and the streets littered with corpses. Page 18; PM's pledge, Page 2

Chinese to buy Cathay stake: Two Chinese companies said they were buying 10 per cent of airline Cathay Pacific from Hongkong and Shanghai Bank for HK$3.39bn (US$438m). China National Aviation Corporation and China Travel Service (Holdings) Hong Kong will each take 5 per cent. Page 19; Lex, Page 18

Bush move on uranium: President George Bush said the US would stop producing plutonium or highly enriched uranium, the main ingredients of nuclear weapons. His aim is to discourage the further spread of weapons of mass destruction. Page 4; Bush still ahead on foreign policy, Page 8

Boost for Clinton: US opinion polls show that Bill Clinton is no longer trailing other presidential contenders. As the Democrats gathered for their Convention, the polls put him level with President George Bush and ahead of Ross Perot. Page 18; Clinton's policy, Page 8

Big Turkish deal: Turkish company Birlesmis Muhendisler Burosu signed an $1.7bn deal with the ex-Soviet republic of Kazakhstan to build a power plant using export revenues from the joint development of an oilfield.

US commercial banks showed signs of recovery, with J.P. Morgan, Chase Manhattan and First Chicago reporting better second-quarter earnings. J.P. Morgan achieved a 67 per cent net profits rise to $385m. Page 19

Algerian premier called as witness: Outgoing prime minister Sid Ahmed Ghozali was summoned to appear as a witness at the trial of Algerian Moslem fundamentalist leaders of the outlawed Islamic Salvation Front.

India's shortlist: India has shortlisted British Aerospace of the UK and Dassault-Breguet Aviation of France as suppliers of air force jet trainers, defence minister Sharad Pawar said.

Pope undergoes tests: Doctors began tests on Pope John Paul, who is in the Gemelli clinic in Rome after complaining of stomach pains.

BTR announces deals: The UK-based industrial conglomerate announced a £110m ($210m) deal to buy Pirelli rubber products business in Germany, Spain and the UK. BTR is also selling a US subsidiary of British engineering group Hawker Siddeley. Page 19

Argentina: US credit rating agency Moody's upgraded Argentina by two notches to B1, four notches below full investment grade. Page 21

Fannie Mae's record: The Federation National Mortgage Association, America's biggest residential mortgage lender, reported record profits for the sixth quarter running. It made $404m between April and June. Page 21

South African protest: Ten thousand black South Africans marched peacefully on government buildings in Pretoria as part of the "mass action" campaign to force President F. W. de Klerk to concede majority rule. Page 18

Iraq rejects UN terms: Iraq has decided to turn down the UN's latest terms for resuming limited oil exports, says the energy newsletter Middle East Economic Survey. Page 4

Property claim rejected: Czech premier Vaclav Klaus said his government would not bow to pressure to return property confiscated from ethnic Germans expelled after the second world war. He said he was disturbed by the backing from some German politicians to claims for the return of Sudetenland property.

Hong Kong airport: Britain and China voiced hopes of progress on financing Hong Kong's controversial new airport, which is due for discussion in the colony later this week.

Swiss sell-off: The Swiss army is selling off 500 tonnes of old berets, tunics and trousers for SFr1 an item because troop numbers have been cut. Ex-army coats will cost SFr5 ($3.70).

■ STOCK MARKET INDICES

FT-SE 100:	2,473.3	(-12.5)
Yield	4.93	
FT-SE Eurotrack 100	1,121.83	(-7.51)
FT-A All-Share	1,187.85	(-0.5%)
FT-A World Index	141.48	(+0.5%)
Nikkei	17,231.73	(+418.01)
New York:		
Dow Jones Ind Ave	3,337.31	(+6.75)
S&P Composite	414.87	(+0.25)

■ US CLOSING RATES

Federal Funds	3¼%	(3%)
3-mo Treas Bills: Yld	3.27	(3.231%)
Long Bond	103½	(104¾)
Yield	7.575	(7.528%)

■ LONDON MONEY

3-mo Interbank	10⅛%	(10⅛%)
Liffe long gilt future:	Sep 99⅞	(Sep 99⅞)

■ NORTH SEA OIL (Argus)

Brent 15-day (Aug)	$20.8	(21.175)

■ Gold

New York Comex (July)	$349.1	(346.7)
London	$348.70	(345.45)

■ STERLING

New York:		
$	1.9295	(1.9225)
London:		
$	1.9296	(1.9215)
DM	2.8625	(2.8725)
FFr	9.6275	(9.7)
SFr	2.5775	(2.605)
Y	241	(same)
£ Index	92.8	(92.8)

■ DOLLAR

New York:		
DM	1.4743	(1.4945)
FFr	4.981	(5.0415)
SFr	1.3328	(1.353)
Y	124.8	(125.125)
London:		
DM	1.478	(1.4955)
FFr	4.99	(5.0475)
SFr	1.3355	(1.356)
Y	124.95	(125.4)
$ Index	66.2	(60.5)

Tokyo close Y 125.18

Austria	Sch30	Hungary	Ft192	Malta	Lm0.50	S.Arabia	SR9.00		
Bahrain	Din1.000	Iceland	IKr180	Morocco	MDh11	Singapore	S$4.10		
Belgium	BFr60	India	Rs20	Neth	Fl 3.50	Spain	Pta200		
Cyprus	C£1.00	Indonesia	Rp3300	Nigeria	Naira20	Sweden	SKr14		
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00		
Denmark	DKr14	Italy	L2500	Oman	OR1.20	Thailand	Bht50		
Egypt	E£4.00	Jordan	JD1.20	Pakistan	Rs35	Tunisia	Din1.000		
Finland	FM12	Korea	Won 2500	Philippines	Peso45	Turkey	L6000		
France	FFr8.50	Kuwait	Fils.500	Poland	Zl 16,000	UAE	Dh9.00		
Germany	DM3.30	Lebanon	US$1.25	Portugal	Esc180				
Greece	Dr250	Lux	LFr60	Qatar	QR10.00				

Foreign exchange markets unmoved by John Major's refusal to devalue sterling

Investors show faith in D-Mark

By Philip Stephens and Peter Norman in London and David Buchan in Brussels

GROWING expectation that the German Bundesbank will tighten monetary policy on Thursday caused international investors to switch funds into the D-Mark yesterday and ignore a strong statement by Mr John Major, the UK prime minister, ruling out devaluation of the pound.

The UK government yesterday hardened its stance on sterling's position in the European exchange rate mechanism with a commitment to hold the present rate against the D-Mark even if other European governments forced a realignment of the system. But it was unable to prevent a sharp fall in the pound's value.

The foreign exchange markets were unmoved by Mr Major's rejection in parliament of backbench Tory pressure for a pound devaluation and his promise to bring down UK inflation "to nil if possible".

Instead they bid the D-Mark higher against most leading currencies following reports that this week's meeting of the Bundesbank council was likely to curb growth in German money supply.

Sterling fell 2 pfennigs to DM2.8525 ($1.87) in London yesterday before dipping in late trading to DM2.8489, a level last seen on April 8 when the market was troubled at the prospect of a Labour victory in the UK general election. The German currency also gained against the dollar, which dropped 1.75 pfennigs to DM1.478, and hit a 15 month high against the Japanese yen.

Using language designed to emphasise that he was unmoved by criticism from some of his own supporters, Mr Major said: "It is absolutely imperative that we do not duck the necessity of bringing inflation down to a level below that of our competitors, as low as we can get – to nil if possible – and seek to keep it there." The ERM, he said, is the cornerstone of that policy.

Further cuts in interest rates would be linked to holding sterling's parity: "When it is appropriate we reduce interest rates. It has to be when it's appropriate – when we can sustain the exchange value of sterling and still reduce interest rates. That is the key part of the decision which we have to make," Mr Major said.

His remarks were later expanded by officials to emphasise that the prime minister regarded sterling's present central rate of DM2.95 as non-negotiable. They made clear that if other governments wanted to devalue against the German currency, Mr Major would insist that the pound was held at DM2.95.

Speculation about a general realignment has been fuelled by heavy intervention to support the Italian lira and by indications from the Bundesbank that it would regard a realignment as an appropriate move for ERM countries that thought they were suffering from adverse effects of German monetary policy.

But with France adamantly opposed to any devaluation of the franc, officials indicated that Britain saw little prospect of a general realignment. In Brussels, Mr Piero Barucci, Italy's new finance minister, said there was "no consideration" of devaluing the Italian lira.

Members of the Bundesbank council are currently debating whether to raise the German discount rate from 8 per cent or to limit the ability of commercial banks to borrow from the German central bank against collateral at the Lombard rate.

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No home for bank, Page 16
Lex, Page 18
Currencies, Page 34
World stocks, Page 38

Siemens, Toshiba and IBM in memory chip deal

By Louise Kehoe in London, Steven Butler in Tokyo and Christopher Parkes in Bonn

INTERNATIONAL Business Machines of the US, Toshiba of Japan and Siemens of Germany are to share the billion dollar cost of developing advanced computer memory chips for the 21st century.

The companies will collaborate in the development of 256 megabit dynamic random access memory chips, which are two generations ahead of the highest capacity 16 megabit semiconductor memory chips available today.

The international alliance reflects a broad trend throughout the semiconductor industry as costs of research, development and chip manufacturing rise.

Separately, yesterday, Advanced Micro Devices, a Silicon Valley chipmaker, announced plans for a joint venture with Fujitsu of Japan to manufacture "flash" memory chips, devices that are eventually expected to replace disc drives in personal computers.

The IBM, Toshiba, Siemens alliance is, however, the largest joint technology venture in the semiconductor industry to date. It brings together three technology leaders that already have well established relationships and raises the prospects of a broad reshaping of the $7bn global market for D-Rams, data storage devices that are used in all types of computer equipment.

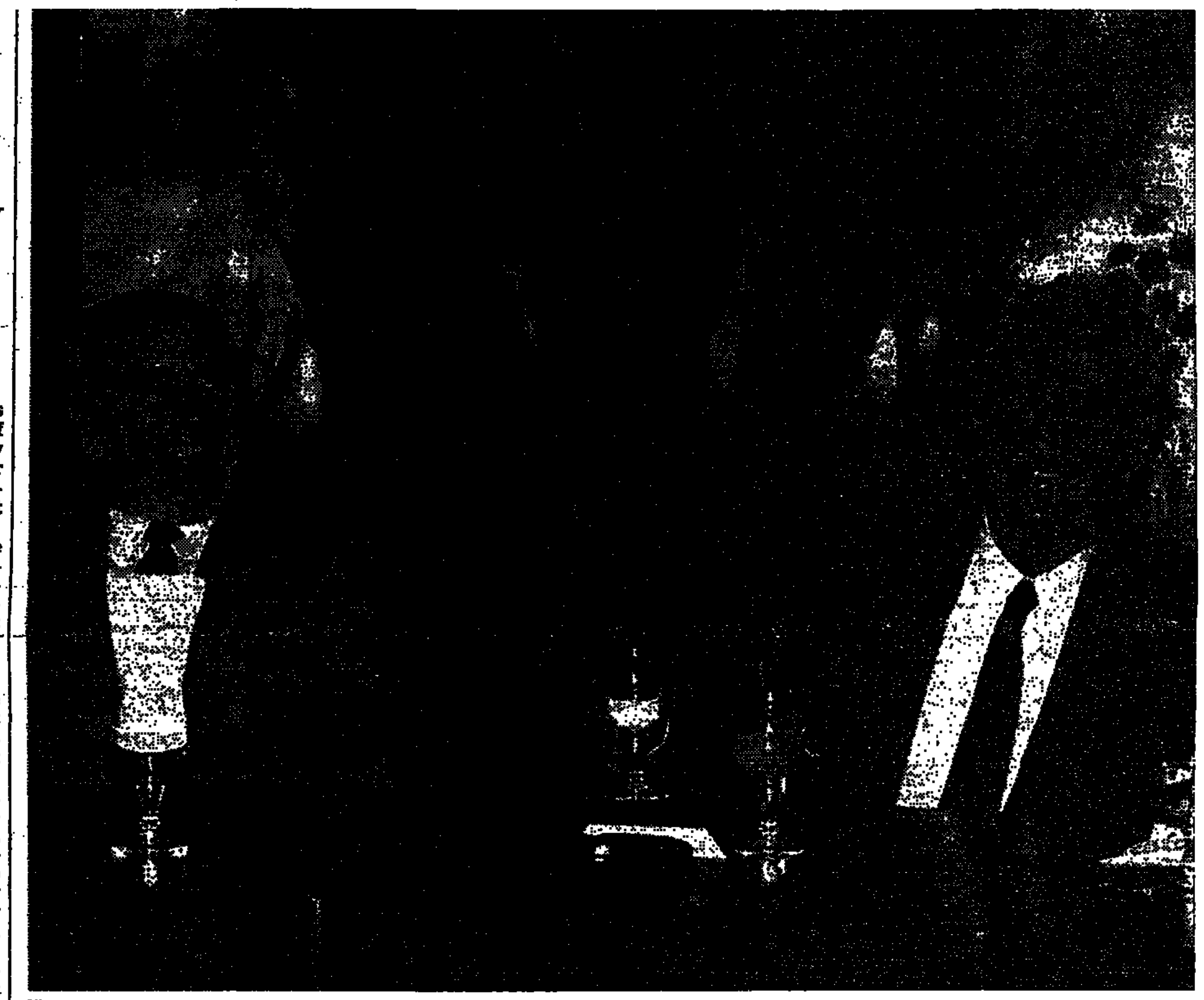
However, IBM, which manufactures chips primarily for use in its own computer products, is also believed to be one of the world's largest D-Ram producers and has recently announced moves to enter the merchant semiconductor market.

Siemens, which is Europe's only high volume D-Ram manufacturer, is not currently expected to expand its involvement in the memory chip market as a result of the agreement. A spokesman for the German group said that its interest lay in the development and manufacture of D-Rams and also in the use of the technology necessary for 256 D-Ram production to make other types of semiconductor chips.

Siemens recently announced it had cancelled plans for a new D-Ram plant to make 64 megabit D-Rams in Germany. Although the 256 megabit venture covers only research and development, an IBM executive said that joint manufacturing might follow.

In contrast, the separate agreement between Japan's Fujitsu and Advanced Micro Devices of the US is geared toward joint manufacturing. The companies have agreed to set up a $700m joint venture in Japan to produce flash memory chips. Each company will purchase a small equity stake in the other.

Partners thank each other for the memory, Page 17



New Israeli prime minister Yitzhak Rabin (right) raises his glass to peace. With him is foreign minister Shimon Peres

Rabin invites Arab leaders to Israel

By Hugh Carnegy in Jerusalem

MR YITZHAK RABIN, the new Israeli prime minister, yesterday said he was willing to fly to the capitals of neighbouring Arab states in the quest for Middle East peace. He also invited their leaders to Jerusalem.

"In the service of peace, I am prepared to travel to Amman, Damascus and Beirut, today, tomorrow. For there is no greater victory than the victory of peace," he said in his opening speech to parliament.

He invited a joint Jordanian-Palestinian delegation to Jerusalem for informal talks and suggested that King Hussein of Jordan and the presidents of Syria and Lebanon address Israel's parliament.

Mr Rabin's speech was greeted enthusiastically in Washington. Mr James Baker, the US secretary of state, said: "I think that any time Arab nations and Israel can sit down face to face and talk peace it is a very good thing."

But Mr Rabin's invitations were in large measure rhetorical flourishes which are likely be turned down by the Arabs. Jordan dismissed the invitation to Jerusalem as "just talk".

The Palestinians are wary of Mr Rabin, and Arab leaders will want to continue the peace talks on neutral ground, in Rome, within the next two months.

Mrs Hanan Ashrawi, spokeswoman for the Palestinian negotiating team, said Mr Rabin's speech "had important points, and signals a willingness to deal with issues seriously."

But she added: "We need concrete proof of the seriousness of their intent."

In contrast to the uncompromising attitude of Mr Yitzhak Shamir, his predecessor, Mr Rabin called on Israelis to recognise that the world had undergone profound changes which presented opportunities for peace.

"We must overcome the sense of isolation that has held us in its thrall for almost half a century. We must join the international movement toward peace, reconciliation and co-operation that is spreading over the entire globe ... lest we be the last to remain, all alone, in the station."

Mr Rabin, leader of the Labour party, which won last month's general election, was presenting to parliament his three-party coalition, which succeeds the two-year-old government led by Mr Shamir's Likud party.

Labour has been joined in government by Meretz, an alliance of pro-peace groups, and Shas, an ultra-orthodox religious party, and is also supported by two

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Palestinians hopeful, Page 6

EC's high interest rates come under fire

By David Buchan in Brussels

FINANCE MINISTERS of all EC states, including Germany, yesterday deplored Europe's high interest rates, but conceded the level of rates was effectively in the hands of the Bundesbank.

This hand-wringing by EC politicians was tempered by a widespread feeling among them that the German central bank was unlikely to raise its interest rates at its meeting on Thursday.

"My deep conviction is that the Bundesbank is not outside reality, and that the reality is that interest rates are too high," Mr *Michel Sapin, France*'s finance minister, said yesterday.

This sentiment was echoed by Mr Norman Lamont, the UK chancellor of the exchequer.

After chairing his first EC finance ministers' meeting, he said: "I hope there will not be an increase in German rates later this week. We recognise that unification has posed certain problems in Germany. There has to be the right balance between fiscal and monetary measures there ... but in the end, it is for the Germans to decide."

Mr Horst Köhler, Bonn's state secretary for finance, repeated

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CONTENTS

Tough Italian package impresses currency markets

By Robert Graham in Rome

FINANCIAL markets yesterday reacted positively, if cautiously, to the Italian government's emergency austerity budget announced late on Friday.

The lira improved only slightly against the D-Mark, being quoted at L757.2 against Friday's L757.4. However, it recovered more ground against the other main European currencies. Dealers said they would have liked more concrete moves to cut public spending but were impressed by the fact that the measures were coherent and non-inflationary (inflation is running at an annualised 5.7 per cent) and had been put together quickly by Italian standards, in less than a week.

The speed and decisiveness with which Mr Giuliano Amato's government has acted seems to have caught Italians by surprise even though they had been aware tough measures were essential to curb the public sector deficit. The Socialist prime minister has also tried to head off union protest by presenting a socially equitable package. Even so, the net effect of new duties and taxes on property and bank deposits will mean an average increase of L120,000 ($104) per month in tax for each household.

The package has sought to find an extra L30,000bn to hold down the public sector deficit to L128,000bn as planned in the original 1992 budget. This will be split more or less equally between cuts and increased revenues. On revenue, the government has opted for measures which are easy to effect and which tax identifiable assets. Thus L11,200bn is expected to come from the unprecedented and one-off tax of 6 per 1,000 lire on bank deposits and Post Office savings. The remainder will come in increased property taxes, higher stamp duties and such measures as raising annual gun permit prices (from L200,000 to L400,000) for Italy's 8m hunters, passports and driving licences (renewed annually).

On spending cuts, more than L1,700bn will come from the defence budget. Other savings will come in freezes in public sector employment, lower transfers to local authorities and reduced calls on social spending via increased employee contributions. Pension reform, gradually raising the retirement age to 65 for men and women through incentives, announced as part of the budget, is likely to have only limited impact this year. The government will also save money by the removal, effective this week, of guarantees on foreign exchange risk on all public (and some private) foreign loans.

The main uncertainty involves the extent to which privatisation plans can be accelerated to generate income within 1992. As of yesterday IRI, the main state holding company, ENI, the state oil concern, ENEL, the state electricity authority, and INA, the insurance institute, formally became joint stock companies under the tutelage of the treasury as a prelude to privatising up to 45 per cent of their shares. The government hopes to raise L4,000bn through privatisation by year-end but this may have to come via an advance from a consortium of banks formed to guarantee the share issues.

Before the measures, the public sector deficit was already set to rise to L175,000bn, nearly 11 per cent of GDP. Even if the budget succeeds, it would be surprising if the deficit can be held down to L128,000bn. Also, many of the measures used to generate extra revenue are one-off. To retain credibility, they will have to be part of larger structural reforms attacking the overblown public sector and tax evasion.

Brussels to speed anti-trust probes

By Andrew Hill in Brussels

THE European Commission is planning to speed long-winded anti-trust inquiries by introducing new internally binding deadlines.

Sir Leon Brittan, competition commissioner, said yesterday that a new accelerated procedure for investigations into joint ventures would be introduced from next January 1 at the latest.

Brussels competition authorities are also trying to accelerate state aid inquiries and are considering how to introduce public deadlines for other anti-trust cases, including investigations into cartels and abuses of a dominant position.

As part of what Sir Leon described as a "wide-ranging review of procedures", the Commission will commit itself to sending at least a preliminary opinion on joint venture cases to the companies involved within "a few months".

Under 1990 rules, Commission inquiries into large EC mergers have to be completed within five months. If Brussels fails to meet the deadline then the merger has to be approved. But the speed of EC merger inquiries has only underlined the sluggishness of other investigations, which sometimes last for years rather than months.

Sir Leon was addressing the Brussels-based Centre for European Policy Studies on the future of competition policy. He said he could "conceive of no development, be it political or economic, that could change our view that [anti-competitive agreements] are contrary to the fundamental aims of the Treaty [of Rome]". But he added that Community competition policy should remain flexible to changing circumstances.

Looking ahead, Sir Leon said he believed many member states would find themselves obliged to reduce direct subsidies to business because of the constraints of European economic and monetary union.

Britain fails to restart EC debate on revenue

By David Gardner in Brussels

BRITAIN'S efforts to restart discussions from scratch on plans to increase European Community revenue by nearly a third were rebuffed by its partners yesterday.

Nevertheless, richer member states like Germany, which contributes most in net terms to the EC budget, agreed with the substance of British misgivings about the size of the rise sought by the European Commission.

Finance ministers of the 12, gathered at the first EC council meeting of the British presidency, said the so-called "Delors II" package negotiations should build on the limited agreements reached at last month's Lisbon summit.

Though the question of when and if the EC revenue base should be raised remains open, a majority of ministers agreed that increases in Community spending should not be tied arithmetically to levels of national public spending, constrained as they are by slow economic growth and the tight financial convergence targets for economic and monetary union later in the decade.

Mr Norman Lamont, the UK chancellor, had sent a presidency letter and an 80-item questionnaire to his colleagues, implying EC spending should be tied to national expenditure increases, and calling into question the need for an increase in the revenue ceiling. Negotiations under the preceding Portuguese presidency were dismissed as "useful preparatory work".

Mr Jacques Delors, the president of the European Commission, has made clear he is not seeking a radical decentralisation of EC environmental policy in the interests of subsidiarity, writes Andrew Hill in Brussels.

In a letter to Mr Ken Collins, the chairman of the European Parliament's environment committee, Mr Delors said that he thought he had been "misunderstood".

The Commission wants to raise the revenue base from a current 1.2 per cent of EC gross national product to 1.37 per cent by 1997. This would increase the budget from Ecu66.6bn ($90bn) now to Ecu87.5bn in 1997 in today's money. Half the increase would go to Spain, Portugal, Ireland and Greece as part of the EC's "cohesion" effort to help them catch up with their partners' living standards and sharpen their competitive edge.

This level of increase is considered by these four states as pledged by the Maastricht treaty. Cohesion, however, proved the most divisive issue of the Lisbon summit. It nevertheless decided that the small "Cohesion Fund" for the four poorest states, created by Maastricht, could start early next year. This will amount to less than a tenth of the fiscal transfers sought by the Commission.

The UK questionnaire was virtually ignored by ministers. Mr Michel Sapin, the French finance minister, congratulated the "presidency's epistolary imagination and zeal", before making clear that there could be no question of further discussion on lowering the existing ceiling on farm spending, ratified in Lisbon.

Mr Horst Köhler, the number two in Bonn's Finance Ministry, asked tongue-in-cheek whether there could be a "supplementary question" in the presidency document on Britain's contested budget rebate – ignored by the questionnaire.

Mr Lamont said he "wouldn't dwell on" the rebate issue – as president of the Council – but that "the UK's position has always been clear". Britain refuses to countenance any change in the refund Mrs Margaret Thatcher won in 1985, since when £12.5bn ($24bn) has been returned to the UK.

Mr Jacques Delors said the Commission would bring forward proposals on the Cohesion Fund and the UK rebate, either at tomorrow's or next week's Commission meeting.

Leader of Community peace conference says the effort goes on

Carrington denies he plans to quit

By Robert Mauthner, Diplomatic Editor, and Judy Dempsey, East Europe Correspondent

LORD CARRINGTON, British chairman of the European Community's peace conference on Yugoslavia, yesterday denied reports he intended to resign from his post.

The reports had been fuelled both by a declaration adopted by last week's Group of Seven summit suggesting that a broader international peace conference might be desirable, and a statement last Sunday by Sir John Nott, a former British defence secretary, that Lord Carrington's mission had outlived its usefulness.

"I was asked by the European Community whether I would do this and I don't think you give up because things have gone very badly, unless those who appointed you want to," Lord Carrington said. If the EC peace mission were to be wound up and the whole process were to start again under the United Nations or another authority, it would not make any difference, he added.

"The problem is that they [the warring parties in Bosnia and other parts of the former Yugoslavia] do not want peace at the moment," he said.

The leaders of the G7 industrial nations and those of the Conference on Security and Co-operation in Europe (CSCE) who met in Helsinki shortly afterwards fully supported the EC conference as the right framework for reaching a durable political solution in the former Yugoslavia. However, their statement on the subject clearly hinted at growing dissatisfaction with the EC forum.

A baby girl suffering from a heart defect on her way out of Sarajevo yesterday, the first passenger in what UN officials hope will become an airlift of the seriously ill

France has been particularly active in canvassing an international peace conference, to the irritation of the British government, which has remained loyal to Lord Carrington's mission.

Sir John Nott added grist to the mill when he said that a single country such as the US or France, with its historical links with the region, or possibly the United Nations, would do better at brokering peace negotiations, when the time was ripe.

There is little consensus about the usefulness of the EC peace conference among the governments of the republics of the former Yugoslavia.

Bosnia's President Alija Izetbegovic, while supporting the Community's efforts, has rejected the plan drawn up in March by Portugal – at that time holding the EC presidency – to divide Bosnia-Hercegovina into cantons.

The Moslem community, which makes up 44 per cent of Bosnia's 4.3m population, and which is concentrated in the urban areas, argues that this scheme is a prelude to dividing Bosnia along ethnic lines.

President Franjo Tudjman of Croatia has welcomed the EC's efforts largely because his republic has now been recognised and the peace conference has not yet come to terms with tackling Croatia's involvement in the war in Bosnia, or its treatment of its Serb minority.

Serbia, under President Slobodan Milosevic, believes the EC peace plan for Bosnia-Hercegovina will eventually lead to the annexation by Serbia of eastern Bosnia.

Irish beef inquiry held up

By Vincent Boland in Dublin

THE TRIBUNAL of inquiry into allegations of fraud, malpractice and political favouritism in Ireland's beef-processing industry has been adjourned until September 2, pending the outcome of an appeal to the Dublin supreme court.

The appeal is being taken by Mr Harry Whelehan, the attorney general, against a ruling by the high court last Friday which allowed questions to be put to witnesses about cabinet discussions on the export credit insurance scheme.

Mr Liam Hamilton, the tribunal's chairman, said yesterday it was "unable to continue its inquiries" until the supreme court's decision was known.

The supreme court gave Mr Whelehan and lawyers for the tribunal seven days to make written submissions before it could hear the appeal. A date for the hearing is expected to be set next Monday. At issue is whether cabinet discussions are confidential or can be revealed at the tribunal, an important constitutional point.

Opposition parties have accused Fianna Fail, the senior partner in Ireland's coalition government, of being behind Mr Whelehan's move and of trying to undermine the tribunal.

Russia seeks western help to break privatisation log-jam

By John Lloyd in Moscow

THE Russian government is turning to the west in an effort to breathe some life into its plans to privatise enterprises and industries still overwhelmingly in the hands of the state.

An announcement is likely soon that a consortium of western companies and banks, led by the accountancy and consulting firm Deloitte Touche Thomatsu, will advise on different aspects of the process.

The privatisation programme has become bogged down in wrangles over legislation and in disagreements within the Russian cabinet about the mode and pace of selling off the state bodies. However, decrees on privatisation and on bankruptcy are now in place, and a programme has been passed by parliament.

Privatisation, seen by the government and foreign experts as the core of the reform programme, has not put down deep roots in any one of the former Soviet republics, in part because of lack of capital, but mainly because of resistance by management and workers, and government fears of unemployment.

However, all large enterprises (employing more than 1,000 workers or with more than Rbs50m capital) are now obliged to submit plans by the end of October for transforming themselves into joint stock companies, with their shares initially owned by the state.

Goskomimushchestvo, the Russian state property agency which is overseeing privatisation, has already prepared model plans for more than 8,000 enterprises, It is also rushing to introduce vouchers allowing Russians to take shares in the companies to be privatised.

Once the plans have been approved by the local property committees, the workers and managements of the enterprises must vote on how they wish to be privatised, and what share of the assets they will take for themselves. Foreign investors will be allowed to bid for part of the assets.

It is planned to extend the privatisation of shops and small enterprises, which began early this year in Russia's third largest city, Nizhny Novgorod, to other cities soon, beginning with the southern town of Volgograd. Other cities have been slow to follow the Nizhny experiment – under which shops were auctioned to the highest bidder – but a few have been cajoled into experimenting with at least small scale capitalism.

The Russian government now claims it will press ahead regardless of resistance and fears, foreshadowing a prolonged struggle in industry in the second part of the year.

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German road users braced for new taxes

By Quentin Peel in Bonn

GERMANY'S car-centred, road-ruled society is working itself up into a state of acute alarm over the prospect of some swingeing new taxes and tolls on road users – regardless of denials by the government.

Shares of all the large motor manufacturers lost ground on the Frankfurt stock exchange yesterday, as the rumour mill was kept working by newspaper and television reports on the impending oil products tax increase, and a national road toll.

Porsche lost DM14.50 (£5), Daimler-Benz DM11.50, BMW DM9.50 and VW DM8.20.

The speculation has been brought to a head by the imminent decision in the German cabinet on reform of the ailing railway system – the Bundesbahn in the west and the Reichsbahn in the east – and the need to find an important new source of finance to pay off its past debts and current losses.

In spite of the insistence by Chancellor Helmut Kohl and Mr Theo Waigel, his finance minister, that no new tax increases are planned before the next election, press speculation is rife that a big increase in the oil products tax is inevitable.

What is rather more likely is the re-introduction of a road toll, and an autobahn permit for road users, following the rejection by the European Court of Justice this year of a first draft to penalise foreign road hauliers.

Mr Dieter Vogel, the government spokesman, insisted yesterday that no proposals for tax reform were on the agenda for the cabinet meeting tomorrow, when the rail reform plans are due to be decided. He also underlined that Mr Günther Krause, the minister of transport, was personally opposed to any general oil tax. That was supposed to scotch speculation about an oil tax increase, which would put 10 pfennigs on the price of a litre of petrol, according to the mass circulation Bild am Sonntag newspaper.

That would be the equivalent of a 14 per cent rise in the price of the lowest cost grade of petrol.

Mr Krause is on the record, however, as being in favour of re-introducing some form of general road toll.

He said in a weekend interview with Der Spiegel, the news magazine, that an autobahn toll for domestic and foreign lorries would probably be introduced by 1993, and for cars by around 1995-96.

He said that the annual toll for lorries would cost up to a maximum DM9,000 as was already intended in the original 1990 proposal outlawed by the EC. Other reports suggest a car tax of between DM200 and DM400.

The question is whether such proposals will come near to meeting the extraordinary needs of the German Bundesbahn, which is this year expected to show a loss of around DM11bn, much of it in interest payments on accumulated debts of around DM45bn. The backlog amounts to twice the Bundesbahn's DM20bn annual turnover.

The reform plan before the cabinet would turn the railways into an independent shareholding company, Deutsche Eisenbahn AG, although not with private shareholders to begin with.

As a result, its accounts would be more transparent, and its staff would cease to be classified as civil servants.

Wholesale prices show slowdown

By Christopher Parkes in Bonn

THE ANNUAL RATE of increase in German wholesale prices slowed further in June, reinforcing expectations of a fall in consumer price inflation in late summer.

A month-on-month drop in prices of 0.1 per cent translated into a rise in the wholesale price index of only 1.2 per cent, the federal statistics office said yesterday. This followed increases of 2.3 per cent in April and 1.7 per cent in May.

Although welcome, the news failed to override adverse reactions in stock and capital markets to the possibility of further tightening in the Bundesbank's monetary policy later this week.

Concern over runaway money supply growth has for the moment replaced inflation as the main talking point in business and financial circles.

Mr Friedel Neuber, chairman of the WestLB bank, the biggest public sector bank in Germany, said yesterday that a "clear statement" from the Bundesbank after its council meeting on Thursday would help to calm markets. He said he was doubtful that the central bank chiefs would decide to tighten monetary policy, although some council members are lobbying strongly for moves to deter demand for credit. The DAX stock market index lost almost 18 points to close at 1,736.50 and the Rex bond index ended the day at 96.51 (96.78).

Immediate prospects suggest inflation will fall this month to below 4 per cent, compared with 4.3 per cent in May and the 10-year high of 4.8 per cent recorded in March. The expected drop will result mainly from the effect of higher duties on oil and tobacco, imposed 12 months ago, falling out of the year-on-year prices calculations.

However, "home-made" inflationary pressures are still strong, according to the HWWA economics institute in Hamburg. The main source is high wage settlements in this year's round, which is currently showing through in a 6 per cent rise in the costs of services and repairs.

The housing shortage is also forcing up rents at an annual rate of more than 5 per cent, and car running costs are up more than 7 per cent.

Main contributors to the downward trend in wholesale price rises were fresh vegetables, 4.2 per cent cheaper than a month earlier, and heavy heating oil (off 3.6 per cent).

However, the picture was marred by an 18 per cent rise in the cost of fresh fish and increases in men's clothing and frozen meat.

Spanish inflation rate falls to 6.2%

By Peter Bruce in Madrid

SPAIN'S consumer price index was static in June, providing a welcome respite for the country's hard-pressed economic managers, who are busy preparing a series of tough measures to clamp down on public spending.

Last month's pause in inflation draws annualised inflation down from 6.5 per cent to 6.2 per cent. The annual figure has risen as high as 6.9 per cent this year, after ending 1991 at 5.5 per cent. Nevertheless, the Finance Ministry said yesterday it was still concerned that the underlying rate of inflation, a measure which excludes energy and processed foods prices, had fallen only slightly, to an annualised 6.7 per cent in June.

The June figures, nevertheless, lend weight to the government's arguments that it is, indeed, capable of slowing inflation despite the fast growth in prices in the early part of the year. These were due partly to the imposition of new value added tax charges in January.

Nevertheless the government is likely to adopt measures before the end of this month to combat a 55 per cent increase in the public-sector deficit in the first five months of the year and a rise of more than 65 per cent in the current-account deficit.

The economy grew only 2.3 per cent in the first quarter, its poorest performance since 1985.

Mr Carlos Solchaga, the finance minister, seems likely to bring forward a VAT increase from 13 per cent to 15 per cent planned for next year and to raise taxes withheld on income, as well as to make sweeping cuts in public spending budgets not already committed for 1992. He is then likely to produce a tight 1993 budget in the autumn.

Paris cinemas fear new wave of competition

The expansion of French cinema chains is posing a threat to the independents, writes **Alice Rawsthorn**

FOR THE past few weeks the film buffs of Paris have been queueing patiently – and not so patiently – on the Place d'Italie to visit the Gaumont Grand Ecran, the city's newest cinema and the biggest single screen in the French capital.

There will be yet another brand new cinema to try out from tomorrow when Le Dôme Imax opens its doors at La Défense in western Paris. At a time when the Hollywood studios are struggling and the British film industry is on its knees, the launch of not one but two new screens in Paris could be seen as a symbol of French cinema's success.

But the expansion of the big French cinema chains, notably Gaumont, the Grand Ecran's owner, poses a growing threat to the dozens of tiny independent cinemas that have turned Paris into one of the world's liveliest film centres. The Grand Ecran's opening could come to be seen not as a success symbol, but as a milestone in French cinema's decline.

Anyone glancing at this week's Paris film listings could be forgiven for thinking that decline is a long way off. Paris is still a dream city for any cinéaste, with a wider choice of films than anywhere else in the world. The city is plastered

European Diary

France

with posters for the latest Hollywood blockbusters showing at the big commercial chains. Night after night the dozens of tiny independent cinemas in the Latin Quarter play crackly prints of esoteric art films to packed houses. This summer's retrospective of the films of John Cassavetes, the US director, is the most successful revival ever in Paris.

The reason why there are so many films is simple – Paris has lots of cinemas, 450 to be precise. The proliferation of independents means that even the most obscure new movies usually open on at least three screens. The purist film fiends rarely stray from the Latin Quarter art houses. The less ascetic are tempted away to more exotic screens such as La Pagode, a Japanese pagoda imported to France in the 1890s and converted into a cinema in the 1930s, or Le Grand Rex on Boulevard Poissonière, where images of clouds are projected on to the star-spangled ceiling.

For years the art houses have co-existed comfortably with the big commercial chains, thanks to the support of the sympathetic Socialist government, whose long-serving arts minister, Mr Jack Lang, is an ardent cinema fan.

Mr Lang has long believed that it is impossible to have a healthy domestic film industry without an adequate distribution system. One of his first initiatives as arts minister in 1982 was to split up GIE, then France's biggest single cinema chain, into two networks, Gaumont and Pathé.

The two new chains, together with UGC, the other big French network, have since been forced to compete for films.

Given that there is only a limited number of Hollywood movies to go round, this competition has created more room for independent productions on the commercial chains and has alleviated the pressure on the art houses.

But earlier this year Gaumont struck a deal to swap a string of its provincial cinemas for the Paris screens owned by Pathé. This means that Gaumont, which now has 19 cinemas with 79 screens in the capital, is once again the dominant chain in the capital, with UGC as its only serious rival.

Arts minister Jack Lang is concerned about fate of independents

The cynics in French film circles claim that Gaumont's growth has already had an effect. Gaumont and UGC, they say, are allocating too many screens to Hollywood blockbusters. The most widely distributed films in Paris this week, Basic Instinct and Beethoven, are both from the US and both showing on almost 20 screens. There are fears that this situation will worsen next year when Gaumont starts to act as the exclusive French distributor for Disney, the US film studio.

Another concern is that distribution is becoming increasingly difficult for independent film makers. Mr Serge Toubiana, editor of Cahiers du Cinéma, the film magazine, recently wrote an article in Libération newspaper describing the problems faced by Mr Danièle Dubroux, a young French director, in finding a cinema to show Borderline, his latest film.

Mr Lang's Arts Ministry has voiced its concern, as has the French film producers' association.

Mr Michael Sapin, the finance minister, last week took action by referring the Gaumont/Pathé deal to the Conseil de la Concurrence, the competition authority, for retrospective investigation.

He also warned that he would be keeping a sharp eye on similar transactions in the future.

Meanwhile, the big French cinema chains are intent on becoming even bigger. UGC is now building the capital's first multi-screen cinema complex.

Gaumont is renovating four of its Paris cinemas as part of a £20m programme. For better or worse, the era of the Grand Ecran has begun in Paris cinema.

State government has flouted court orders, says interior minister

New Delhi defied on Hindu temple


Militant Hindus perform voluntary construction work on the disputed temple

THE government of Uttar Pradesh had flouted court orders by allowing building of a Hindu temple to start near a 16th-century mosque, India's interior minister said yesterday, Reuter reports from New Delhi.

"The government of Uttar Pradesh has violated the court orders by permitting the work to be carried on, on land acquired by the state," Mr Shankarrao Chavan told parliament.

He was referring to a 1989 court order which prohibits any construction near the mosque, in the city of Ayodhya, until the dispute is resolved.

Last week, the supreme court admitted a writ petitioning against the construction. A hearing is set to begin this week.

"The final decision of the supreme court will have to be awaited," Mr Chavan told a noisy Lok Sabha (lower house).

Hindu militants began building the temple last week, reopening a dispute which has led to more than 3,000 deaths during the past three years. The issue has been dormant for the past six months.

Hindus say the mosque is built over the birthplace of the venerated god-king Rama. Moslems say there is no evidence to back the claim.

Uproar broke out in parliament on Friday when left-wing and centrist opposition groups blocked proceedings, demanding dismissal of the Uttar Pradesh government in an attempt to stop the construction work.

The right-wing Hindu revivalist Bharatiya Janata party (BJP), which rules Uttar Pradesh, has said any attempt to destabilise the state government will lead to political turmoil.

The party is the largest opposition group in the Indian parliament.

Mr Chavan said he had appealed to the state government to stop building the temple immediately and wait for the supreme court verdict.

"I have tried to use all persuasive reasoning with the chief minister of Uttar Pradesh to have the construction suspended," he declared.

Political analysts say the issue has put Prime Minister Narasimha Rao's minority Congress government in a quandary. They say any serious action to halt the construction work could spark a political and law-and-order crisis, and a delay could attract charges of collusion with the BJP.

BROKERS DEFIANT AS EXCHANGES TRY TO REOPEN

BROKERS throughout India refused to resume trading yesterday after the four main stock exchanges reopened for trading after more than a month, Shiraz Sidhva writes from New Delhi. Delhi, Bombay, Madras and Calcutta brokers demanded immediate action on disputed shares after exposure of the Rs3.5bn (£63.6m) Bombay financial scandal. A cut-off date, to be announced by a special court this week, would allow brokers to change their transfer deeds and help them convert the tainted shares into good shares. "Members are apprehensive that the shares they deal in today may be tainted tomorrow," said Mr M.R. Mayya, executive director of the Bombay Stock Exchange. He hopes markets will resume trading tomorrow following an informal meeting of stockbrokers this afternoon.

Baghdad rejects UN oil terms

THE Iraqi leadership has decided to turn down the latest United Nations terms for the resumption of limited export sales of its oil, the influential energy newsletter Middle East Economic Survey (MEES) said yesterday, Reuter reports from Nicosia.

MEES said the decision was reached after several meetings in Baghdad between Mr Tariq Aziz, the deputy prime minister, and the Iraqi negotiators headed by Mr Abdul Amir al-Anbari. Iraq's main objection was to the UN's insistence that oil exports should be channelled through Turkey to the Mediterranean terminal of Ceyhan, rather than through Iraq's Gulf port of Mina al-Bakr.

A compromise deal which would have required Iraq to start exports via Turkey, with the possibility of being permitted to export up to 10 per cent of the allowable volume from Mina al-Bakr, was also rejected by Baghdad, MEES said.

Indonesia appeal

Amnesty International appealed to Indonesia yesterday to prohibit summary executions and torture, which the human rights organisation says are widely used to suppress political dissent, Reuter reports from Jakarta.

The group's report coincides with a meeting of Indonesia's foreign aid donors in Paris this week.

Rwanda fighting

Fighting raged in the tiny central African state of Rwanda as the government and rebels prepared yesterday to sign a ceasefire in the 21-month conflict, Reuter reports from Kigali.

Red Cross plea

The British Red Cross launched a multi-million pound appeal for Somalia yesterday, saying 2m people could starve because of war and famine, Reuter reports from London.

Jordan dismisses Rabin regional talks offer

By Lamis Andoni in Amman and agencies

JORDAN yesterday dismissed the offer by Mr Yitzhak Rabin, the Israeli prime minister, for talks in Jerusalem or neighbouring Arab capitals, saying there must first be "constructive success" in the formal Arab-Israeli peace negotiations.

The country's chief delegate to the Middle East peace talks said the "real issue" was Israel's acceptance of United Nations resolutions calling on Israel to withdraw from the occupied territories.

Mr Abdel Salam Majali said: "I cannot see the point of inviting us to go to Jerusalem before we really see constructive success in the negotiations in the proper place in which we have all agreed to go to."

He added: "Israeli leaders have said this many times but one can see it is just talk".

Jordanian officials said King Hussein would maintain his position of rejecting direct talks with Israel without a settlement on its withdrawal from the West Bank and Gaza strip.

Palestinian officials also said they were disappointed by Mr Rabin's offer, but said they hoped that the offer signalled that Israel might prove more flexible during the next round of Middle East peace talks.

No immediate reaction was forthcoming from either Lebanon or Syria, but President Hafez al Assad, the Syrian president, has also professed the utmost resistance to visiting Israel.

The only Arab leader to have made the trip was President Anwar Sadat, the assassinated Egyptian leader, in a gesture which helped forge peace between Cairo and Israel, but which ostracised Egypt from the rest of the Arab world.

Senior Palestinian officials in Amman claimed that despite Mr Rabin's offer to seek a breakthrough in the peace process, the Israeli premier was avoiding what they called the "pre-requisites for peace".

"Our problem with Rabin is that he wants to sell himself as a peacemaker, but he has to prove himself with deeds, not words," said one official.

He said that Palestinian delegation at the peace talks wished to see Israel first accept in full the Geneva convention, which bans Israel, as an occupying power, from changing the identity of the West Bank and the Gaza strip.

The official said that if Mr Rabin wishes to be serious about peace he must show "genuine readiness" to halt all settlements on the West Bank.

Palestinian officials said that Mr Rabin's offer to talk in neighbouring Arab capitals echoed calls from the previous Likud government for a normalisation of relations between Israel and its Arab neighbours.

However, Palestinian groups and the Arab governments participating in the peace talks insist that Israel must first withdraw from the territories occupied in 1973 before there can be any normalisation of relations.

Arab delegations to the peace talks, Jordan, Syria, Lebanon and the Palestinians, have consistently rejected Israel's call for the talks to be conducted in the region – a move they would interpret as an Israeli breakthrough in normalising relations.

Baker praises quest for progress

MR James Baker, the US secretary of state, yesterday praised the Israeli prime minister's offer to go to Arab capitals in search of a peace breakthrough, Reuter reports from Washington.

"I think that any time Arab nations and Israel can sit down face to face and talk peace it is a very good thing," Mr Baker said. "Whether it is done in the context of the peace process which we have developed or whether it is done outside it, I think it would be a very, very good thing."

Asked if he still intended to proceed with the peace process that the US initiated with a Middle East conference last October, Mr Baker said: "The point I want to make ... is that we should not exclude anything that should lead to peace."

Ms Margaret Tutwiler, the State Department spokeswoman, said the administration was considering sending a senior official to Israel to prepare for a possible visit to Washington by Mr Rabin.

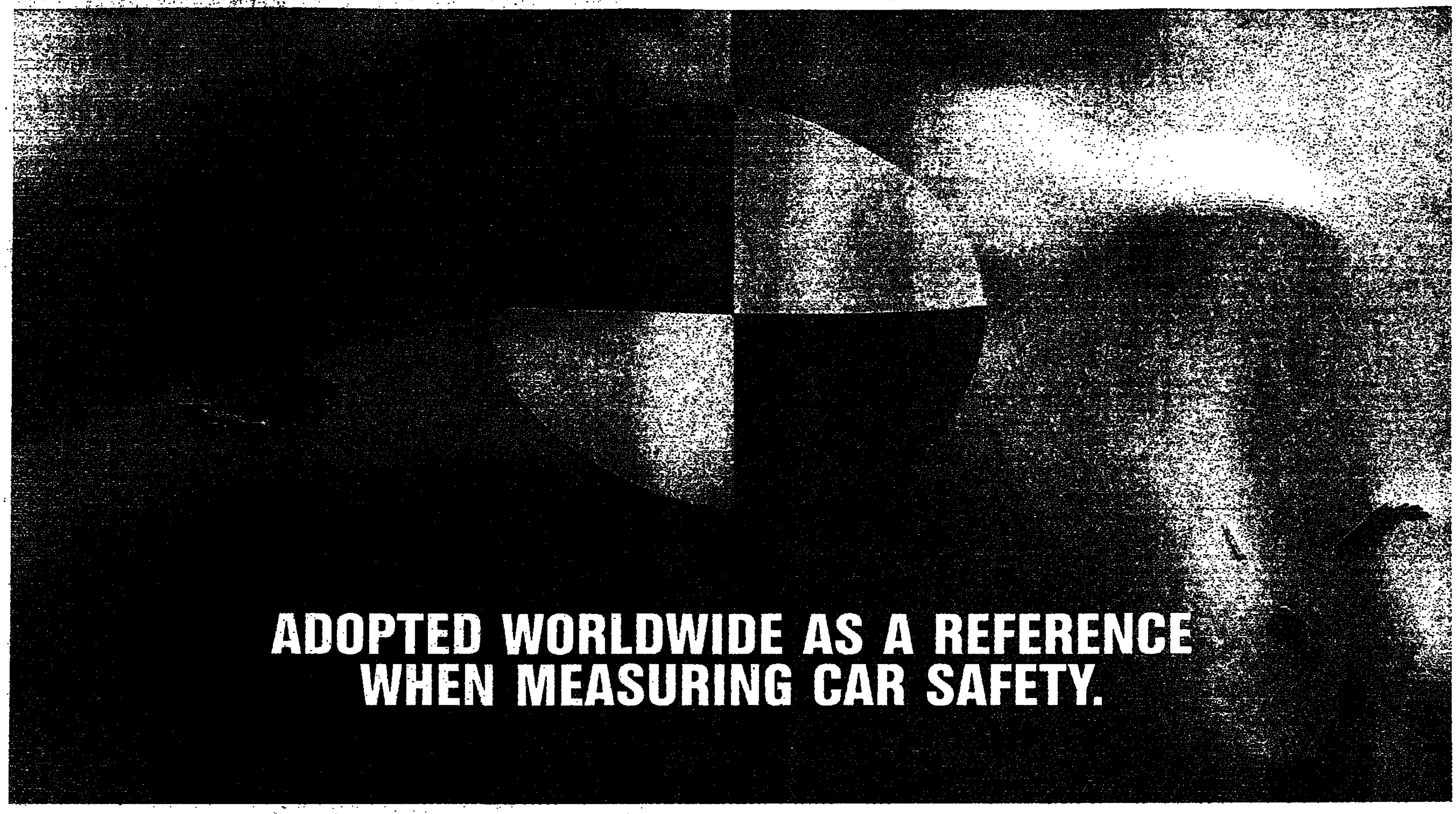
Malawi campaigner sent for trial

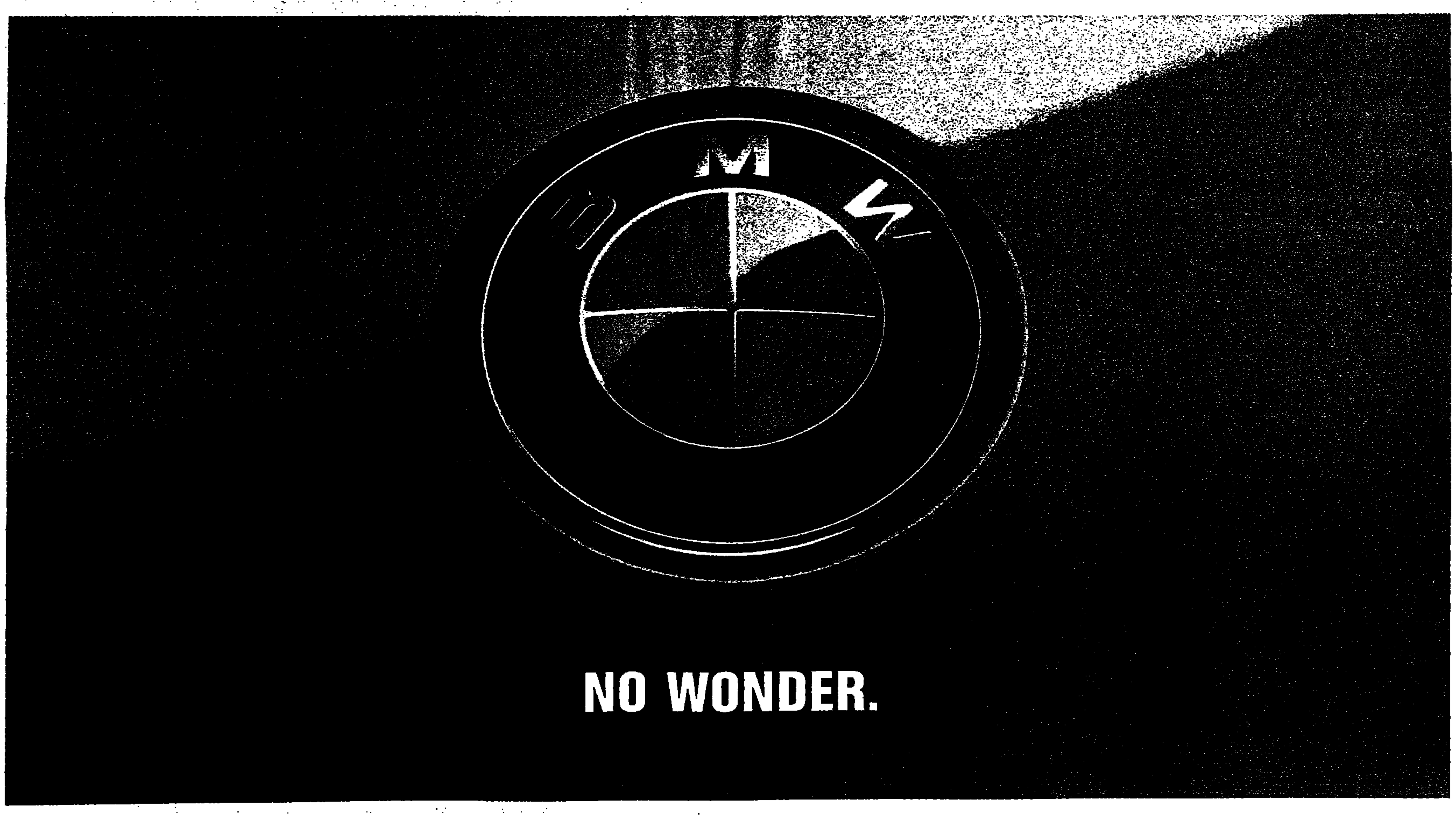
MALAWI magistrates' court yesterday charged pro-democracy campaigner Chakufwa Chihana with three counts related to sedition, his lawyer, Mr Bazuka Mhango, said, Reuter reports from Lusaka. The case had been referred to the high court for trial.

"He has been charged with offences relating to sedition, the first one of importing seditious publications, second, being found in possession of seditious publications and third, preparing an act with seditious intent," Mr Mhango said. The penalty was a fine equal to $770 (£403) or a five-year prison sentence.

Mr Chihana, 52, chairman of the Lusaka-based Interim Committee for a Democratic Alliance, was arrested on April 6 when he returned to Malawi from meetings with pro-democracy exiles in Zambia and South Africa.

He was freed after a high court judge granted him bail, the first in Malawi's history of political detentions. Western governments have been pressing President Kamuzu Banda to allow opposition parties in Malawi.





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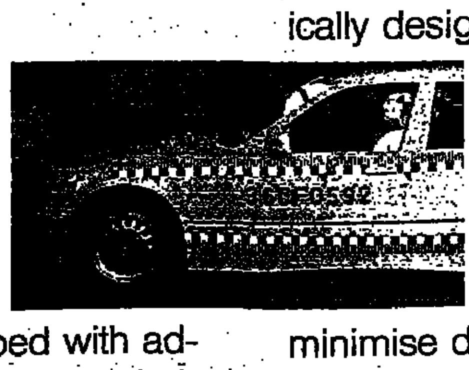

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Japan's trade surplus heads for record

By Robert Thomson in Tokyo

JAPAN'S TRADE surplus for June rose 24 per cent over a year earlier to $8.97bn (£4.7bn), bringing the surplus for the first six months to $49bn, the largest recorded for any half-year period.

With the surplus on target to surpass the record annual figure of $82.7bn in 1986, the Ministry of International Trade and Industry (Miti) will announce a new import promotion campaign later this week.

The campaign is a response to criticism from the US and EC about sluggish Japanese imports. The trend was clearly shown in the first half, when exports rose 8.6 per cent and imports fell 3.3 per cent, leaving a surplus larger than the $48.5bn recorded in the second half of 1986.

In June, imports were 5.1 per cent higher than a year earlier at $19.12bn, while exports rose 10.5 per cent to $28.09bn, reflecting the desire of Japanese companies to increase foreign sales to compensate for lower ones in a slowing domestic economy.

The new import promotion campaign will have little immediate influence on the surplus, as it is designed to encourage foreign investment in Japan and increase imports by setting up provincial trade zones. But Tokyo hopes the surplus has peaked, and pointed to an easing of the seasonally adjusted surplus from $9.7bn in May to $7.9bn last month. Seasonally adjusted exports rose 4 per cent on May, with imports 16 per cent higher.

Mr Russell Jones, senior economist at UBS Phillips & Drew, said the surplus would remain large for the next 18 months or so, prompting an intensification of international presure on Japan to stimulate a weak economy.

"The key to the Japanese surplus is domestic demand. In recent years we have seen the yen's adjustment has only had a marginal effect on the surplus. At the moment, Japanese companies are turning to export markets."

The import figure in June was bolstered by a 22.8 per cent increase in textile imports and a 16.3 per cent rise in foodstuffs, but these increases highlighted the continuing importance of primary or partly processed products in Japan's import mix.

The most significant increase in exports were of transport machinery (up 16.4 per cent) and ordinary machinery (up 14.1 per cent). Japan's car makers have increased exports to soak up excess domestic production lines' excess capacity.

During the month, exports to the US rose 7.5 per cent on a year earlier to $7.6bn, while imports from the US edged 0.8 per cent higher at $4.44bn. Exports to the EC were up 10 per cent at $5.2bn; imports from the EC were 8.3 per cent higher at $2.6bn.

Trade continued to expand rapidly with south-east Asian countries, while the most notable leap was in bilateral trade with China. Imports from China in June rose 33.1 per cent, while exports to China were 31.8 per cent higher than in the same month last year.

Companies warned to protect environment

By Robert Thomson

A MALAYSIAN court order suspending production at a joint-venture chemical plant of Mitsubishi Kasei, the leading Japanese chemical maker, prompted the Japanese government to warn yesterday that all factories abroad must do no harm to the environment.

The Ipoh High Court decision, including an order to remove radioactive waste from the site, embarrassed Tokyo, which wants to take a lead in environmental issues and has denied claims that Japanese industry is relocating allegedly hazardous factories in poorer countries.

Mitsubishi, with a one-third stake in the Asian Rare Earth facility producing materials for the electronics industry, said it was surprised by the finding and was "studying what action we should take".

Japan's ministry of international trade and industry (Miti) yesterday discussed the case with Mitsubishi Kasei and issued a formal caution to the company.

Miti officials said all Japanese companies would be again urged to ensure foreign investments do not create environmental problems; they would study the Malaysian court decision before deciding on further action in this case.

The court found that suspending production at the plant was necessary to protect people in a village near Ipoh from the waste. Eight had demanded damages and the suspension of production, though the judge rejected the damages claim.

Renewed debate is now expected in Tokyo over legislation scrapped last year that would have demanded Japanese companies abide by strict domestic standards in running their foreign factories.

Putting the generals out of business

Victor Mallet examines efforts to loosen the military's grip on Thailand's economy

THAILAND'S numerous generals have been uncharacteristically quiet since troops shot scores of pro-democracy demonstrators in Bangkok in May, but they now face a battle on two fronts.

Last week the government of Mr Anand Panyarachun, removed their authority to deal with domestic unrest, used repeatedly to enhance their political power.

Since May, pro-democracy campaigners have been demanding the resignation of senior commanders responsible for the shooting. Mr Anand has prefered a more legalistic approach and last week's move is seen as a first step towards reorganising the military.

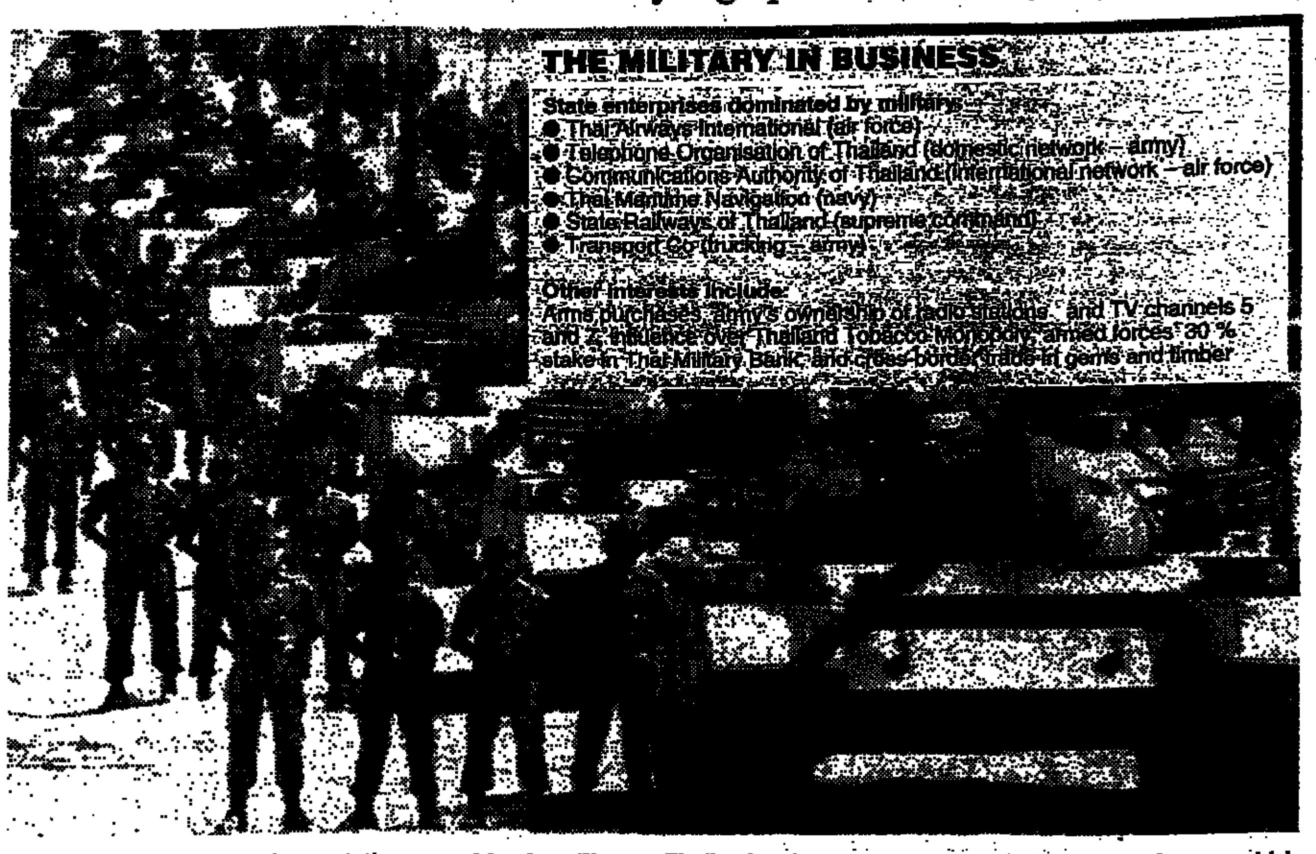
Yesterday, Mr Anand turned his attention to loosening their grip on the Thai economy by seeking to end the air force chief's automatic right to chair Thai Airways International, the national airline.

Thai Airways International, the national airline, has become the focus of this campaign, both because its chairman is Air Chief Marshal Kaset Rojananil, the air force chief and supreme military commander, and because its poor financial performance suggests soldiers are ill qualified to run a modern business of such size and complexity.

The privatisation of Thai Airways and the impending flotation of 7 per cent of its shares – along with a the decline in tourist arrivals resulting from the violence, for which Air Chief Marshal Kaset is blamed – have also drawn attention to the airline.

Suggested boycotts of Thai Airways and of the Thai Military Bank, a third of which is owned by the armed forces, appear to have generated more talk than action, but the technocrats have found a powerful advocate in Mr Anand, the businessman appointed prime minister in June.

Mr Nukul Prachuabmoh, the transport and communications minister, has ordered an inquiry into seven allegations of corruption at the airline, including one about the purchase of Rolls Royce engines for new Boeing 777s and another about the planned purchase of a plot of land from a senior air force officer's wife.



Thai Airways has long been the fiefdom of the air force, but Mr Nukul and the finance ministry, which owns 93 per cent of the airline, have now agreed to change the company's articles of association; at present the articles give control of the board to the air force and stipulate that the air force commander automatically becomes chairman.

The combative Mr Nukul has not restricted his efforts to Thai Airways. He is also manoeuvring to dislodge the military from the Telephone Organisation of Thailand and the Communications Authority of Thailand. The first is responsible for the domestic telephone system and is controlled by the army, while the second handles international communications and has until now come under the air force.

Another minister, Mr Mechai Viravaidya, is attempting to reform the state-controlled media to ensure objective news coverage. During the violence in May, television and radio stations owned by the military were sharply criticised for their biased coverage.

Although they intend to reduce the influence of the military in state enterprises, Mr Anand and his cabinet know they will only be able to make a start on removing the generals from their entrenched positions in the Thai economy in the two months before elections in September.

Military commanders justify their dominance of communications and air transport on the grounds of national security – an excuse which has looked increasingly thin since the collapse of Soviet communism – but they are also linked directly or through protection rackets to many different kinds of legal and illegal activities with no relevance to security.

These include the border trade in gems and timber from Cambodia and Burma, the coastal smuggling of diesel from Singapore, gambling, real estate and golf course deals using state property, and the Thailand Tobacco Monopoly. The Supreme Command declined to answer questions on military involvement in business.

Senior military men have grown exceptionally wealthy from various business interests, but Mr Anand, in trying to nudge them back to the barracks, has deliberately avoided publicly antagonising them.

He warned civilians in a recent speech to realise "that the strength and organisation of the military is such that they cannot and should not be excluded from all public affairs unrelated to defence."

Mr Anand and supporters of the armed forces say soldiers play a vital role in developing rural areas, but that is more a reflection of the weakness of successive civilian governments than of the military's expertise in dam-building.

Perhaps sensing that the violence in May has left the military businessmen of the armed forces in a vulnerable position, a handful of officers have recently spoken out in favour of a professional army which would leave politics and business to civilians.

Thailand faces no perceptible security threat from abroad which could be used to justify continued military control of strategic sectors of the economy, and if there were such a threat, it would increase public demands for a professional army.

The Thai security services are regarded as a poor fighting force – they were humiliatingly defeated in a border skirmish with Laos four years ago – because training has been neglected in favour of business, equipment has been chosen on the basis of lucrative commissions rather than suitability, and the top-heavy officer corps is splintered into political factions.

The armed forces have become adept, however, at staging *coups d'état*, and there are muted fears they will do just that if they object to the efforts to curtail their business activities and attempts to punish them for the deaths in May.

Thai airline battle looms

By Peter Ungphakorn in Bangkok

THAILAND'S cabinet yesterday decided on first steps to remove Thai Airways International (THAI), the country's flag-carrier, from control of the air force.

The decision was described as a matter of compliance with stock market law, but it is clearly part of the proclaimed intention of the prime minister, Mr Anand Panyarachun, to "demilitarise politics" and "decommercialise the armed forces", after the shooting of scores of anti-military protesters in May.

One of the officers blamed for the shooting is Air Chief Marshal Kaset Rojananil, armed forces supreme commander and therefore in charge of internal security until last week.

Mr Anand still has several more sensitive steps to take in order to complete the limited task he has set himself before the September 13 general election. The most difficult will be the annual reshuffle of the top brass that takes place on October 1 and is usually announced in September.

Air Chief Marshal Kaset could be promoted to a less active post in the reshuffle which could force him to leave THAI's chairmanship before the airline's new regulations take effect.

The cabinet's decision yesterday was to ask Thai Airways' board of directors to amend the company's articles of association, a change that does not have to be made for two years.

That is the deadline, under new stock exchange laws that came into force in May, for companies whose shares are traded on the market to become public listed companies. By law, these companies' directors have to be elected freely by shareholders.

Keating's popularity sags

MR Paul Keating, Australia's prime minister, is losing popularity, with fewer voters seeing him *as intelligent and capable as recession maintains its grip*, Reuter reports from Canberra.

Mr Keating's waning image was reflected yesterday in a Morgan Gallup poll, which showed that his Labor government would probably be beaten easily by the conservative coalition in an election, which must be held by May next year.

Liberal leader John Hewson, long seen by voters as dull and unimaginative, is reaping the benefits of Mr Keating's decline in popularity since becoming prime minister in December after ousting Mr Bob Hawke in a party coup.

Mr Keating is seen as capable and intelligent by 30 per cent of voters, compared with 37 per cent in June last year when he was treasurer, the pollsters said. Mr Hewson's "capable and intelligent" rating was 33 per cent, down two percentage points.

The government is likely to wait for the last **moment, hoping for an economic turnaround, before calling an election, Labor sources said.**

The nationwide poll of 3,170 voters indicated 57 per cent approved of Mr Hewson as a leader, while 33 per cent approved of Mr Keating, with 10 per cent undecided.

Mr Keating's approval rating in mid-March, soon after he stimulated the economy with a A$2.3bn (£890m) job creation plan, was 40 per cent, against 47 per cent for Mr Hewson. But much of the money, most to improve infrastructure such as railways, has not yet been spent and the jobless toll is growing.

The Morgan poll, taken in the week to July 4, indicated 36 per cent support for Labor in an election against 44 per cent for the coalition.

Snow threat to 1m NZ sheep

By Terry Hall in Wellington

HUNDREDS of volunteers, supported by the New Zealand air force and army, are mounting a big exercise to help farmers save more than 1m sheep, 10,000 cattle and thousands of farmed deer which have been caught in freak snow drifts blanketing much of the central part of the South Island.

However the snow, said to be the worst since 1946, promises a break in the power crisis, caused by a drought, which has led to concern about possible job lay-offs.

The drought has caused nationwide power cuts, with Comalco, the aluminium producer, shutting down a third of its giant smelter at Bluff, on the southern tip of the South Island.

State-owned Electricorp says that provided consumers take care, there should now be sufficient water in the lakes that supply the hydroelectric stations to see the country through the winter months.

With no thaw in sight, the snow threatens the sheep, cattle and deer, most of which are breeding stock, and the livelihood of farmers. Canterbury, the worst affected province, is a centre of New Zealand's sheep industry, and farmers say they expect a disastrous lambing season.

Air force helicopters are flying volunteers into mountainous areas to help muster the animals and provide them with hay. Sheep are suffocating as they try to stand on one another's backs in the four- to six-foot drifts, and cattle are dying of thirst, because they appear unable to take moisture from the snow.

Farmers have been told they will not get government assistance for the stock losses.

NEWS: WORLD TRADE

US groups say anti-EC action could hit jobs

By Nancy Dunne in Washington

US IMPORTERS and distributors yesterday told an interagency Bush Administration committee that $1bn (£521m) in sanctions proposed against EC products would cause widespread US job losses and injury to the US economy.

The prohibitive duties were proposed by Mrs Carla Hills, US trade representative, in retaliation for the failure of the EC to reform "adequately" its subsidies programme for oilseeds.

Her office last month released a proposed "hit list" of imports worth an estimated $2bn – which includes wine, cheese, biscuits, gin, liqueurs, and tobacco.

If the dispute is not settled in compensation talks – to be held in the General Agreements on Tariffs and Trade through to August 18 – the Administration has threatened to impose sanctions on $1bn worth of products on the list.

However, officials of companies which have long-established ties with Europe yesterday made clear that any retaliation against the EC would boomerang. The impact would be particularly devastating on the wine, beer and spirits sectors, which are struggling to recover from two big rises in federal excises taxes in the past seven years as well as new state and local taxes.

Typical of the testimony before the "Section 301 committee" were the comments by Mr Fred Meister, president of the Distilled Spirits Council of the US.

New tariffs on wines and spirits would lead to a $1.2bn payroll decline and total loss of 86,000 jobs in the industry, Mr Meister said. Unemployment compensation would cost $84m; the gross domestic product would fall by $4.9bn; and tax revenues would decline.

If the EC follows up on its threat to counter-retaliate, the US could lose 25 per cent of its total whisky exports.

Mr Gary Riedel, president of the American Soyabean Association, said he regretted any injury to other industries. "If we don't come to terms, than those other industries would have no legitimate degree of certainty that their rights might not be infringed upon in the future," he said.

The controversy leaves the Bush Administration in a tough spot. Failure to act if the dispute is not resolved would receive widespread condemnation by the farm groups.

Mr Bush has already been warned by Senator Robert Dole, the minority leader, and a group of other senators that any settlement must benefit the US soyabean sector. They also insisted that the administration must not accept any EC proposal which would put tariffs on EC oilseed imports.

Little sign of a sanctions dividend

Philip Gawith reports that exporters in South Africa will have to remain resilient

SOUTH Africa's renewed descent into political crisis is bad news for exporters facing the prospect of customers and markets more interested in the political, rather than the commercial, ramifications of doing business with the country.

However, if the experience of the sanctions era is anything to go by, political opprobrium is something South Africa's exporters do not find too hard. Some is patriotic bluster, to tell the world "you didn't harm us", but there is little expectation of an immediate sanctions dividend. Taking February 1990, when the African National Congress (ANC) was unbanned, as the start of the post-sanctions era, South Africa's merchandise exports grew by 8.4 per cent and 8.3 per cent respectively during 1990 and 1991, whereas growth was 21-25 per cent in three of the previous four years.

Although South African exports may have done well despite the sanctions, the figures do not reveal how much better they might have done under normal circumstances.

The main products affected by sanctions were iron and steel; uranium, coal, fruit and textiles. Most of these found alternative markets, affecting prices, not volumes. About 65 per cent of South Africa's exports are precious and strategic metals – gold, diamonds, platinum, chrome and vanadium – which were virtually sanctions proof. Gold exports in 1991 were R19.7bn, or 26 per cent of the total.

Even exporters of non-strategic goods, such as chemicals and steel, were able to sell all their product during the period. They were not consumer goods requiring conspicuous marketing, and their bulk form meant, if necessary, that their origin could be disguised.

A spokesman for Iscor steel producer, which exports close to 50 per cent of total sales, says that even with US and EC markets closed, it was able to re-route sales to the Pacific Rim and South America.

The figures also reflect the slowdown in world economic growth over the same period. Most South African exports are commodities and particularly vulnerable to such a slowdown being susceptible to both volume and price weakness.

Finally, they disguise an important upward trend in manufacturing exports, especially in areas such as transport machinery and equipment. Reserve Bank figures show that manufactured exports, about 20 per cent of total exports, grew by an average 25 per cent per annum during the years 1984 to 1990, the height of the sanctions period. In 1991 they rose by a further 21 per cent.

Initial reasons for this success include the sharp decline of the rand, an average increase of 5 per cent per annum in world trade over the period 1984-90 and slow domestic growth encouraging producers to look for export markets.

It also reflects burgeoning trade with the rest of Africa. Johannesburg bustles with Kenyan and Nigerian businessmen and South Africans themselves are much more welcome, as a recent trade fair in Kenya testifies.

Mr Bruce Donald, economist at the South African Foreign Trade Organisation (Safto) says that although only 6-7 per cent of South Africa's total exports (R75bn in 1991) are to Africa, 20-30 per cent of finished goods are exported to Africa. The main African export markets are Botswana, Lesotho and Swaziland – part of a customs union with South Africa, Zimbabwe, Zambia and Mozambique.

Continued growth is partly attributable to the success of the General Export Incentive Scheme (GEIS), introduced in April 1990, which offers more generous subsidies as products move up the value scale.

The trend in manufactured exports needs to be kept in perspective. Many of South Africa's manufactured products are uncompetitive because the country lacks economies of scale and has low labour productivity. For exporters, this means finding niche markets, or selling to countries where South African goods can compete.

Unsurprisingly, fruit products and wine, freed of marketing inhibitions, have probably been the main beneficiaries of the removal of most sanctions. Likewise, the discount of $3-$5 per tonne on South African coal has largely disappeared, though the depressed state of the market has overshadowed this benefit.

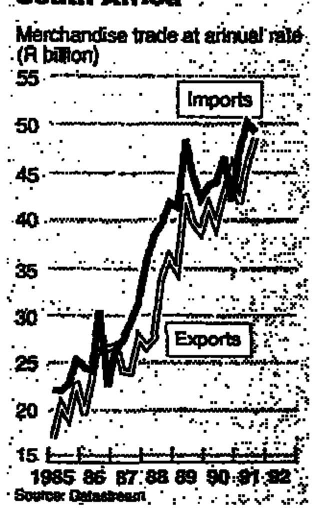
For commodity exporters the benefits of sanctions going will be felt in lower distribution costs and in some cases through the removal of a political discount on their products.

So far, most agree, there has been little direct financial benefit from the lifting of sanctions. Many companies hope to return to their traditional markets, but realise this process takes time. Relationships have to be developed, or renewed, and new entrants, such as Venezuela into the coal market, make competition fiercer.

The beneficial impact of sanctions being lifted may be evident initially not so much in higher sales as in increased capital investment. Although current political uncertainty mitigates against fresh investment, past experience suggests exports will withstand renewed calls for sanctions.

South Africa

Merchandise trade at annual rate (R billion)



Source: Datastream

China buys Rolls-Royce engines in $300m deal

CHINA yesterday announced a $300m (£156m) order for Rolls-Royce engines and said it was negotiating to buy eight British Aerospace 146 aircraft, writes Alexander Nicoll.

Zhang Yanning, vice minister of the State Council Economic and Trade Office, said a buying mission which he heads has made $364m of purchases in the UK, and that the BAe order would add a further $184m.

Mr Richard Needham, minister of trade, is to visit China this month and Mr Michael Heseltine, president of the Board of Trade, will head a large British trade mission to China in October.

● A DM600m (£208m) order for three container ships placed with German yards by Cosco, the Chinese shipping line, will go ahead after the Bonn parliament's decision last month to lift restrictions on development aid for trade with China, writes Andrew Fisher in Frankfurt.

Bremer Vulkan, the west German yard, will build one vessel, with the other two to be built under contract by a yard in Wismar, east Germany.

Turkish group in $1.7bn Kazakh power plant deal

By John Murray Brown in Istanbul

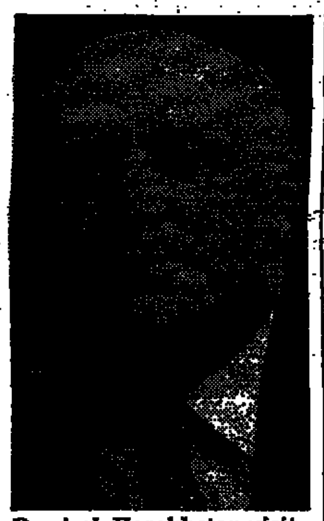
A TURKISH group yesterday signed a $1.7bn (£886m) deal with the government of Kazakhstan to construct a power plant, financing the project by using export revenues from the joint development of a nearby oil field.

United BMB group, a privately-owned Turkish group, and the Kazakh Ministry of Energy agreed a contract to build a 1350MW combined cycle power plant at Aktubinsk in north east Kazakhstan.

Under a countertrade arrangement, the Turks will supply a power plant under turnkey terms, in exchange for the right to a share of the revenues from the export of Kazakh oil. The agreement could set the pace for similar deals in a region rich in resources but in desperate need of infrastructure.

The deal follows a visit by Mr Suleyman Demirel, the Turkish prime minister, to the region earlier this year, and is the first big break for Turkish groups bidding to do business against competition from western and European oil companies.

Officials confirmed the area under consideration contained recoverable reserves of 600m barrels.



Demirel: Kazakhstan visit

Under the deal, the Turkish group will export the oil using one of the existing or planned pipelines to Europe. Under a production sharing arrangement, BMB will be able to recover its costs of exploration and development of the field. Any "profit oil" which remains once the company's costs have been deducted is to be used to finance the power plant.

Gatt row brews on Mercosur scrutiny

A ROW is brewing in the General Agreement on Tariffs and Trade (Gatt) on how it should scrutinise Mercosur, the Southern Cone Common Market grouping Argentina, Brazil, Paraguay and Uruguay, writes Frances Williams.

Mercosur says its free trade arrangement should be considered under Gatt's "enabling clause". This allows preferential trade deals between developing countries to be simply notified to Gatt's Committee on Trade and Development, and protects them from challenge by other Gatt members.

But, at today's meeting of the Gatt council, the US will call for a working party on Mercosur under Article 24 of the General Agreement on free trade areas and customs unions. It argues that the size and potential importance of Mercosur, with a population of 200m and an annual GNP of $500bn (£260bn), merits a detailed examination by trading partners to check its consistency with Gatt rules.

The EC yesterday proposed a compromise under which Mercosur would be examined by a working party set up by the committee.

Mr Nunes Amorim, Brazil's ambassador to Gatt, said yesterday that Mercosur members were prepared to provide full information on Mercosur to Gatt members, and to enter into consultations with any country that felt its Gatt rights were being impaired.

Mr Rubens Barbosa, a senior trade official from Brasília, said in an interview that trade between Mercosur members had jumped by over a third between 1990 and 1991, while Brazil's exports to Mercosur partners had risen 77 per cent.

US presidential race hots up as the Democratic party assembles in New York to select its candidate

Unity and hope make a tentative appearance

Confidence has been low at recent conventions, writes **Jurek Martin.** This one might be different

THE two commodities with which the Democratic party has become unfamiliar are hope and unity. Both are present this week in New York, but both are still fragile.

Not since 1964 has the party held what might be described as a confident convention. Even in New York in 1976, the precursor of the last presidential election victory, the hierarchy's suspicions about the insurgent southern candidacy of Mr Jimmy Carter were only partly allayed by the selection of a party stalwart, Mr Walter Mondale, as running mate.

The 1968 convention in Chicago was a disaster. The assassination of Robert Kennedy, the likely nominee, split the party and the anti-Vietnam war protests in the streets outside were the worst backdrop imaginable.

In 1972 in Miami, procedural wrangling meant that Mr George McGovern gave his acceptance speech in televised prime time only in Hawaii. Even the selection of Mr Tom Eagleton for second place on the ticket turned out to be disastrous when he withdrew shortly afterwards following revelations about his health.

In 1980 there was a sense of doom about Mr Carter's chances of re-election, exacerbated by the fact that the party's liberal establishment was emotionally and politically committed to the cause of Senator Edward Kennedy.

In 1984 Mr Mondale seemed destined to be defeated from the outset against a popular incumbent. His choice of Ms Geraldine Ferraro as running mate was eye-catching and perhaps salved the souls of the activists, but it did little for the party's national credibility.

Mr Michael Dukakis went to the 1988 convention with hope, ahead in the polls, but that was to prove illusory. Unity was wafer thin and fell apart as soon as the Republican guns were turned against him.

Comparisons may be made this year with all the recent predecessors; some work to Mr Bill Clinton's advantage while others do not. For example, it probably helps that the party's activist wing, with a litany of liberal causes that runs to pages, is not the force it was.

Only Mr Jerry Brown of the dissidents remains a non-convert, and even his own powerful political family from California is urging him to come around, partly for Mr Clinton's sake but also for the future political prospects of his sister, Kathleen, now the state treasurer and likely gubernatorial candidate two years from now.

Conversely, liberals have always been nothing if not enthusiastic, but genuine exuberance for Mr Clinton is still not conspicuously present. The enforced harmony of this convention, so Republican in its concept and execution, may be politically necessary but it may also have the effect of persuading would-be voters to stay at home in November, which is precisely what the Democrats do not want.

Furthermore, the Clinton-Gore ticket is a southern one. This makes sense because if the Democrats cannot break through in that part of the country, now a solidly Republican stronghold, they cannot win in November. (Mr Ross Perot's presumed presence in the race makes it even more vital that a credible southern campaign be effected.)

However, the liberal establishment remains profoundly suspicious of southerners, even though neither Mr Clinton nor Mr Gore can be described as political outsiders.

The last successful regional ticket was that of Truman and Barkley in 1948, a good precedent in one sense because it won, though it did so against all odds.

The party will be concerned, as it was with Mr Carter in 1976, that a southern-dominated campaign will lack sophistication and bite. The party will seek to impose its values and insert its people into Mr Clinton's organisation, which is still run from Little Rock and still dominated by those without overweening national reputations. The potential for subsequent infighting is great.

Nothing unsettles traditional Democrats more than an overt commitment to traditional values – of religion, the family and the work ethic – all of which are centrepieces of the Clinton movement. The implication is that such a commitment leaves out society's less fortunate, most of whom the Democrats have reckoned to be their own since the days of Franklin D. Roosevelt.

Such an approach, no matter how cloaked, appears to be borrowing too much from Republican clothes, even though the Republican method has led to victory in five of the last six presidential elections.

Of course, causes have changed. The great party commitment of the early 1980s to the equal rights amendment for women has been replaced by determination to defend women's reproductive rights, a sentiment which is certainly more popular in the country at large and which cuts across party lines.

It is also a fact that the trade union movement, the underpinning of Mr Mondale, for example, has lost political clout. Yet it can still turn out the vote better than most (even Reverend Jesse Jackson) if it is turned on. Mr Clinton, coming from a state in which unions are not favoured, has still to prove he can do this.

Democrats have also been comfortable traditionally with activist economic policies, partly to promote their causes and partly in reflex opposition to Republican alternatives. The decay of the social infrastructure in the last 12 years, many still feel, vindicates these beliefs.

But Mr Clinton is not a conventional "tax and spend" Democrat and, while there may be an appreciation of the fact that this makes him a less easy Republican target, it leaves the question of where his heart really lies.

All these factors, present and sometimes dominant in recent conventions, are still clouds over New York this week. They may not appear as great as the fundamental question of Mr Clinton's "character" and fitness to be president, but in the months ahead, if not in the enforced harmony of New York, they will drop their rain on him.

After all, Democrats would not be Democrats if they did not fall out from time to time. It is a characteristic that makes the party more interesting – and so difficult to put in the White House.

Democratic dissident: Jerry Brown, who has still to endorse Bill Clinton, addresses supporters at a rally in New York's Central Park on the eve of the party's convention

Clinton sets out policy of bargain with citizens

By George Graham in New York

GOVERNOR Bill Clinton's call for a "new covenant" between the US government and the American people has left its mark on his party's policy platform.

Echoing the language Mr Clinton has used throughout his campaign, the platform seeks a bargain in which the government promises to expand opportunity but insists that its citizens accept greater individual responsibility.

The covenant would:

- Invest more in education, training and child care for people needing welfare support, but insist that everyone able to work must do so, either in the private sector or in community service;
- Offer all students automatic loans to pay for their college education, regardless of their family income, but require them to pay them back either with a percentage of their future income or through some form of national service;
- Support family leave legislation and expanded child care facilities but crack down on "deadbeat parents" who do not meet child support obligations;
- Raise teachers' pay but require them to maintain and prove classroom competence.

In its rejection of "both the do-nothing government of the last 12 years and the big government theory that says we can hamstring business and tax and spend our way to prosperity", the platform represents an attempt to appeal to the centrist Democrats and independent voters who have deserted the party in the last three presidential elections.

The platform also carries a message of "no pain, no gain" in its warning that the massive and rising federal government deficit will require "fair and shared sacrifice of all Americans for the common good".

Dominated by Clinton supporters, the platform committee rejected specific proposals from Mr Paul Tsongas, Mr Clinton's principal challenger in the spring primaries, that would have expanded on the theme of necessary pain by calling for a cap on federal spending and an increase in petrol taxes.

It does, nevertheless, insist on the need for an effort to address the budget deficit by tackling discretionary spending, reforming entitlement programmes and raising taxes on the wealthy – even though the platform relies heavily on the assumption that its economic growth strategy will generate more tax revenues.

In the critical area of health care system reform, the Democratic platform falls well short of specifics. The Democrats have not resolved their disagreements on the best way to overhaul a system in which costs are spiralling far ahead of inflation, even though their commitment to reform of some sort is stronger than President George Bush's somewhat half-hearted tinkering.

The platform does not attempt to decide between the pay-or-play approach, in which employers would be required to provide their workers with health insurance or else contribute to a state fund, and the Canadian approach, in which the government would take over as the sole payer.

Instead, it calls for a "uniquely American reform" that will provide universal access to quality, affordable health care as a right.

Bush still ahead on foreign policy

By George Graham

PRESIDENT George Bush's aura as the victor of Desert Storm and the man who presided over the western world as the Soviet Union collapsed may have faded in recent months, yet the Democratic party has not yet succeeded in denting voters' confidence in his foreign affairs expertise.

A recent Gallup poll carried out for CNN and USA Today showed that 62 per cent of voters believe that Governor Bill Clinton, the Democrats' presumptive presidential candidate, would be capable of defending US interests abroad.

An overwhelming majority, however, still said that Mr Bush would be better than either Mr Clinton or Mr Ross Perot, the Texas billionaire who seems likely to run as an independent candidate, on foreign affairs – the only category in which the president still leads both his challengers.

Mr Clinton has set out to position himself as a serious student of foreign policy with a series of speeches that have attracted favourable reviews from Washington pundits.

The Democratic party platform, to be voted on at this week's convention in New York, continues on the same lines with a generally middle-of-the-road foreign policy plank, but with several differences from the Bush stance.

Attacking "the corrosive effect of foreign policies that are rooted in the past, divorced from our values, fearful of change and unable to meet its challenges", the platform criticises the Bush administration for its placatory approach to dictatorships and to regimes which abuse human rights.

Some criticisms may strike home. The recent call by Democrats in the House of Representatives for the appointment of a special prosecutor to look into the administration's role in the BNL Iraqi loan fraud seems likely to maintain the spotlight on Mr Bush's policy errors over President Saddam Hussein.

Apart from calls for a faster reduction in US forces and a more pro-Israeli policy in the Middle East, the Democrats differ little from the Republican administration in their desire for collective security arrangements, multilateral peacekeeping and free trade.

In accusing Mr Bush of remaining rooted in the Cold war, however, the Democrats underline their claim that Mr Clinton and his vice-presidential running mate, Senator Al Gore, are the candidates of generational change.

N-weapon initiative announced

THE White House yesterday announced that the US would no longer produce plutonium or highly enriched uranium and that it would seek commitments from other nuclear powers to halt production of key ingredients of nuclear weapons, writes Nancy Dunne in Washington.

The statement, made as the Democratic convention was opening in New York, was presented as part of a broad initiative to discourage the spread of weapons of mass destruction.

The US has not produced weapons-grade plutonium since 1988 or enriched uranium since 1964. The US Energy Department said the significance lay in the fact that it was the first time Washington had made a formal commitment to ending production of these materials.

Mr Lee Feinstein, deputy director of the Arms Control Association, said the move was long overdue and would focus on the prevention of production, rather than elimination of missiles.

The initiative includes a number of proposals to strengthen international actions against those who contribute to the spread of weapons of mass destruction and the missiles that deliver them.

Cuban revolutionary in an army green business suit

Castro is courting capital - not capitalism, writes **Damian Fraser**

FOR a man who built a revolution on the expropriation of foreign capital, Fidel Castro has been demonstrating a surprising flexibility. Last month the Cuban leader donned an olive green army suit and blue tie to welcome 125 potential foreign investors, many of them Americans, to dine at the government palace.

Cuba, he declared, was open to their money. His message has just been underlined by Cuba's National Assembly. On Sunday it effectively formalised a growing practice and passed a new constitutional article to allow foreign investment in state enterprises, to let Cuban companies import and export without permission from central government, and to recognise foreign ownership of property in joint ventures.

Mr Castro firmly denies that Cuba, in soliciting foreign investment, is accepting capitalism. "Capital and capitalism are not the same," he insisted last month. "Capitalists will not be the owners of our country. The country will continue to be socialist."

"Our country", he said, "knew capitalism before the revolution and does not have kind memories."

Underlining this, the new wording of the constitution's Article Three contains a warning to all those who might dare to challenge Cuba's one-party communist system. The clause reads: "Against all those who try to overthrow the political, social and economic order established by this constitution, all citizens have the right to fight with any means, including armed struggle, if other methods are not possible."

The contradiction at the heart of Cuba's new economic reform is hard to miss. Castro's plan is for a partially foreign-owned capitalist enclave in Cuba to rescue a socialist economy from its own shortcomings.

Cuba is looking to foreign investment to provide capital, technology and management skills at a time when the island is facing a deep economic recession because of the collapse of its economic lifeline to the former Soviet bloc.

The obstacles, however, are enormous. The US embargo on trade with, and investment in, Cuba means the biggest source of money, and the largest market for Cuban goods, is out of bounds. The success of the capitalist enclave will depend on an adequate internal market for labour, energy and raw materials, as well as bureaucratic goodwill, all of which could be undermined by a weak domestic economy.

The fear that the Communist government will fall, following the collapse of the Soviet Union, and the public opposition of exiled Cubans to foreign investment in the island means that only the bravest businessmen will invest in Cuba, typically expecting their money back in about three years.

Foreign investment is nevertheless one of the few cards Mr Castro has left to play in order to sustain the economy. This continues to reel from the disintegration of the eastern bloc, with which Cuba did 85 per cent of its trade – much at subsidised prices – just three years ago.

The deterioration even since last October is palpable. The value of the peso on the black market has fallen, from 15 to 33 pesos to the dollar, as fewer and fewer goods are available at official prices. Black-market prices over the same period have more than doubled. People face shortages of meat, chicken, soap, detergent and cooking oil. At almost every corner in Havana there are long lines of people waiting for food or for extremely infrequent buses.

On top of that, the US administration has caved in to Florida's extremist Cuban exiles and agreed to support the Cuban Democracy Act. This act, which now has a chance of becoming law, would seek to ban the subsidiaries of US companies from selling to Cuba.

Many of the businessmen on the investors' trip to Cuba were from US subsidiaries of companies such as Procter & Gamble, American Express and Philip Morris, and trade from all subsidiaries has recently been growing, doubling between 1988 and 1990 to $700m (£366.4m).

Cuba's overtures to foreign investors are undoubtedly bringing in some money. According to Mr Hector Hernandez, president of the central bank, Cuba had signed 60 joint ventures with foreign investors by last year, and another 100 were in the pipeline.

By far the most important are in tourism, with Grupo Sol, the Spanish developer, leading the way. One-fifth of the 500,000 tourists expected this year will be staying in hotels that are products of joint ventures.

After tourism, foreign investors have shown interest in mines and textiles. Twelve Americans stayed on in Havana after the investor trip in an attempt to clinch deals involving, among others, supplying food in Cuba's airport.

One executive from an international pharmaceuticals company left Havana impressed by Cuba's biotechnology plant, suggesting that with the right foreign partner Cuba could successfully penetrate some markets.

The Cuban government hopes that foreign investment will reach $400m-$500m a year, but even then it will at most form 2 per cent of Cuba's estimated gross domestic product, and would not compensate for the drastic losses caused by the end of subsidised trade with the ex-Soviet Union. Cuba, for example, will be able to import only 6m barrels of oil this year, against 13m in 1989.

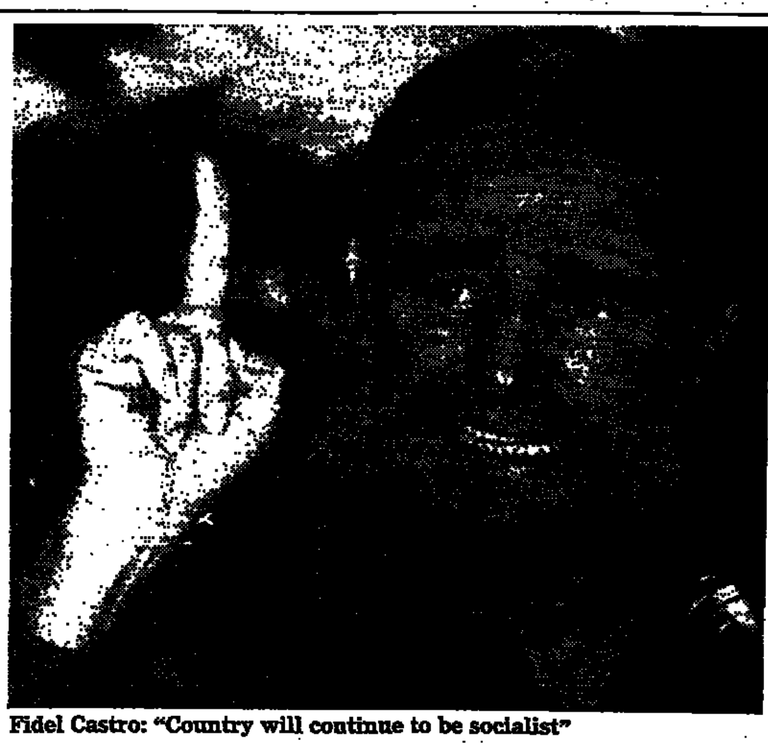
For political reasons, Mr Castro has rejected moves to stimulate the economy as China has done, by allowing a free market in agriculture. Cuban officials say that such a market would create inequalities in income and thus threaten social peace.

The government is concerned that freeing some sectors of the economy, while leaving others controlled, would lead to a shift of resources and workers into free markets, leaving the official sector to fall apart. Last month Mr Castro warned that farmers caught selling their goods in the black market would have their land confiscated.

The discontent caused by the worsening economic situation has provoked a political crackdown, with leading dissidents being imprisoned or harassed. Foreign journalists who ask Cubans about the current situation risk being detained or, as happened recently to one, being beaten up.

For Cubans the repression is much worse. "Rapid reaction brigades" of party members have pounced on the few dissidents brave enough to display opposition in public. Mr Raúl Castro, defence minister and Fidel's younger brother, threatened earlier this year to reconvene emergency revolutionary tribunals – scrapped 20 years ago – to sentence opposition groups guilty of violence against the state.

Such actions make substantial inflows of foreign investment unlikely for the present. Many of the Cuban leader's guests last month said they had come to look for opportunities on the assumption that Mr Castro would soon fall. Mr Sais Gelrud, a Venezuelan oil engineer, caught their mood: "This is all a make-believe. Nothing is going to happen until that man goes."



Fidel Castro: "Country will continue to be socialist"

Mexican ruling party heads for state poll defeat

By Damian Fraser in Mexico City

MEXICO'S centre-right National Action party (PAN) is set to win the governorship of Chihuahua state, only the second time that the ruling Institutional Revolutionary party (PRI) has lost a gubernatorial election in its 63-year history.

Last night the official state electoral commission put Mr Francisco Barrio, the PAN candidate, 15 to 20 percentage points ahead of the PRI with over half the votes counted. According to the unofficial count of the PAN, which claimed victory, Mr Barrio's party had an estimated 54 per cent of the vote.

The PRI appeared ready to concede.

However, the PRI appeared to be leading in the weekend's other gubernatorial election, in the state of Michoacan, where the main opposition was the left-of-centre Party of Democratic Revolution (PRD). The PRI said it was ahead by about two to one after counting 70 per cent of the votes – an estimate backed up by early official returns.

In contrast the PRD estimated that it was narrowly ahead after counting votes at around 20 per cent of the polling booths.

The contending claims could prepare the way for a tense post-electoral period. The PRD is planning to hold a victory rally today, which may turn into a demonstration against the government party.

The PRI hopes that a defeat for the PRD in the stronghold of its president, Mr Cuauhtémoc Cárdenas, would make it difficult for it to mount an effective challenge in the 1994 presidential elections. For this reason the PRI mounted one of the most expensive and sophisticated campaigns in its history, spending $33m (£17.2m) in the state, according to observer groups' estimates.

The voting was quiet and relatively trouble-free in Chihuahua, partly because the government and the PAN worked together to ensure a peaceful process. The PAN victory reflects its support in northern, better-off and relatively industrialised states. It won its first governorship in 1989 in Baja California, another border state.

In a 1991 election in the state of Guanajuato, the PRI candidate resigned following charges of vote fraud, after which President Carlos Salinas named an interim governor from the ranks of the PAN.

The PAN's victory in Chihuahua may actually benefit Mr Salinas's government. It will be used as evidence of the PRI's commitment to greater democracy, and further strengthen the hand of the conciliatory faction in the pro-business PAN, thereby widening the gulf between it and the more hard-line PRD.

In Michoacan the election was much calmer than the municipal elections in 1989, but Mr Ricardo Pascoe, the PRD spokesman, claimed the process was "fraught with irregularities – some of them very serious". He said multiple voting was widespread.

Urban policies have failed, says report

By Alan Pike and Alison Smith

THE BRITISH government's policies aimed at reversing inner city decline have largely failed, a critical report from the independent Policy Studies Institute concluded today.

The report's conclusion – that after 15 years of urban aid programmes the gap between deprived areas and the rest of the country is as wide or worse – comes at an embarrassing time for the government. On Thursday, ministers will announce successful bidders in City Challenge, the latest in a long series of initiatives aimed at reviving inner cities.

The PSI report acknowledges that City Challenge – under which local authorities bid competitively for government funds for specific urban projects – and the government's proposal for an Urban Regeneration Agency, have not yet had time to prove themselves. It comments, however, that "given the record so far, it is difficult to have much confidence in more of the same".

The report uses official statistics to examine deprived areas in relation to factors including employment, education, training, poverty, health and housing. "Under most headings, the gap between conditions in deprived areas and other kinds of place remains as wide as it was a decade and a half ago. In some respects the gap is wider," it says.

Ministers hope that City Challenge, by making local authorities think competitively about priorities and work in partnership with the private sector, will be more successful than previous initiatives.

They are keen that the announcement of the City Challenge winners should not mean that projects which fail to gain funding through the scheme are inevitably shelved.

Ministers point out that some projects are seeking other forms of government money, and failure in City Challenge need not mean the end of the road. Particular importance is attached to keeping private sector interest in the proposals alive.

Major frustrated by lack of Gatt deal

By Ralph Atkins

A DEAL on the Uruguay round of trade liberalisation talks would make "the single biggest contribution" possible towards world economic recovery, Mr John Major, the prime minister, said yesterday.

Amid calls from many Tory backbench MPs for lower interest rates or a sterling devaluation to revitalise the UK economy, Mr Major stressed the importance he attaches to free trade when he reported to the House of Commons on last week's Munich summit of leading industrial nations.

He betrayed his frustration that a deal had not been possible last week and – in a jibe at countries he believes are blocking a settlement – said: "with the right political instruction, the negotiators could very swiftly reach a settlement."

The stumbling block to a Gatt deal remains a dispute between the EC and the US over farm subsidies.

France, in particular, wants the US to respond positively to recent reforms in the EC common agriculture policy.

Mr Major faced ridicule from Mr Neil Kinnock, the opposition Labour party leader, for what he saw as the "ineffectual results" of the summit.

Fair trade chief may act on high cost of CDs

By David Owen and Michael Skapinker

SIR BRYAN Carsberg, newly-appointed director general of fair trading, has raised the possibility of regulatory action over the high price of compact discs just three months after his predecessor rejected the idea.

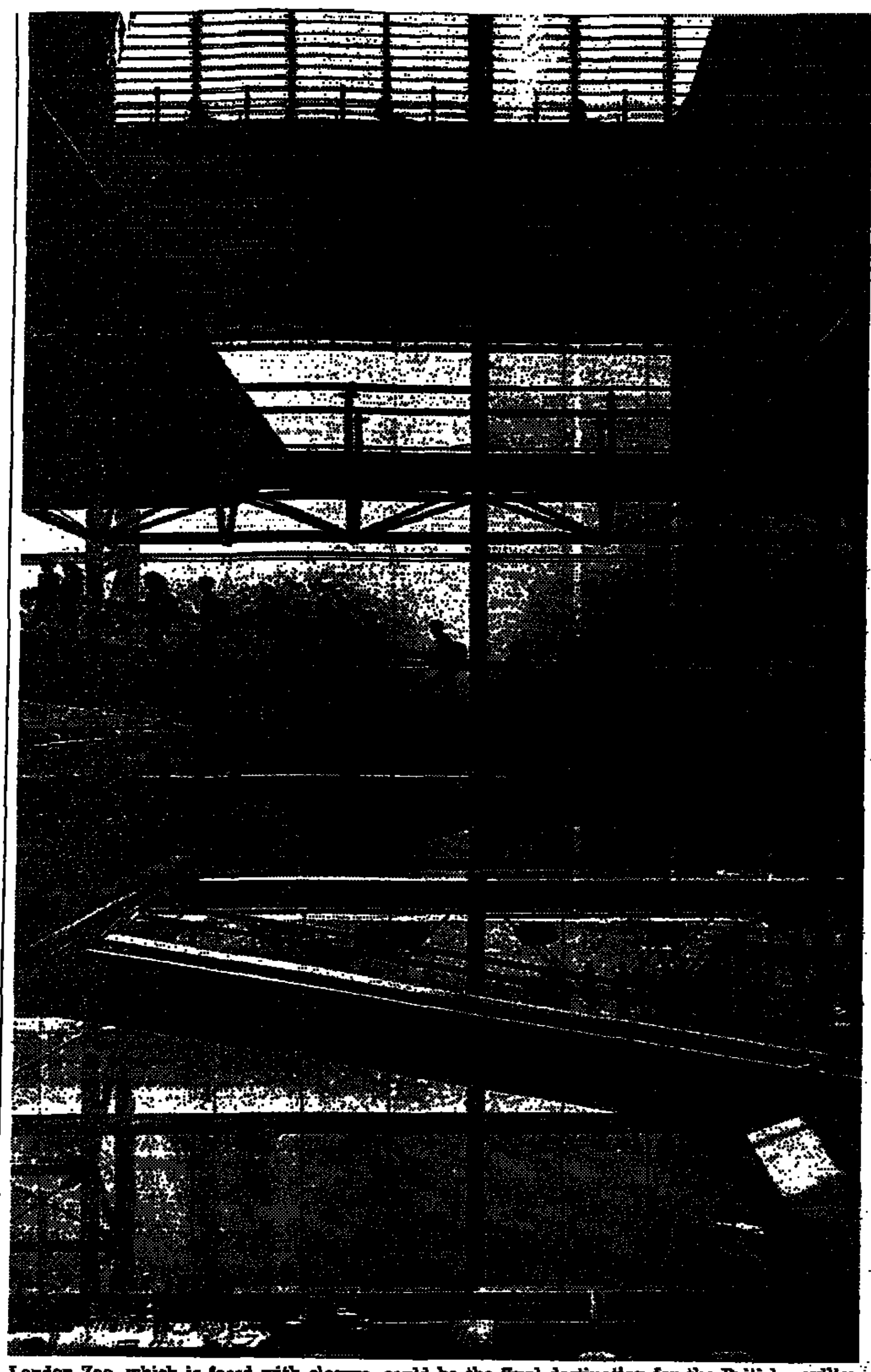
In a letter last week to Mr Nigel Griffiths, a Labour opposition consumer affairs spokesman, Sir Bryan said he wanted to "review the evidence personally" before deciding on whether a case "exists for additional work and perhaps formal regulatory action".

Mr Griffiths wrote to Sir Bryan last month requesting a fresh inquiry, saying that the investigation by Sir Gordon Borrie, previous director general, had left consumers feeling dissatisfied. Sir Gordon said at the beginning of April that an inquiry by the Office of Fair Trading had found collusion between record companies and retailers.

Sir Gordon said CDs were more expensive than cassette tapes and records and this could not be explained by differences in production costs. CD prices were high because consumers were willing to pay more for them.

In his letter to Mr Griffiths, Sir Bryan, who took up his post last month, says: "There are some indications that the price of compact discs is higher than it should be but the evidence so far is not clear cut." The OFT said Sir Bryan would examine the evidence already collected before deciding whether further investigations should be carried out.

The OFT's earlier decision to take no action on CD prices came as a sharp disappointment to the Consumers' Association, which has campaigned on the issue for several years. The Press Council in 1990 rejected a complaint from the British Phonographic Industry Association over an article in Which? magazine, published by the Consumers' Association, on CD pricing. It accused record companies of keeping prices artificially high.



London Zoo, which is faced with closure, could be the final destination for the British pavilion (above) at Seville's Expo 92, under the latest scheme for bringing back the highly admired building to the UK after the world fair ends in the autumn.

Professor Paul Cook, president of the British Science and Technology Trust, said yesterday he was working with British companies to raise the £20m needed to reconstruct the steel and glass pavilion in Regent's Park as a showcase for British companies' developments in environmental technology.

The pavilion, designed by Nicholas Grimshaw & Partners, features a wall of water designed by the sculptor William Tye. Lord Palumbo, chairman of the Arts Council, has already proposed that it should be rebuilt beside the Design Museum near Tower Bridge as a gallery of British design.

Britain in brief

Blue Arrow appeals under way

Four City advisers convicted of fraud over the Blue Arrow scandal were denied a fair trial because of the length and complex nature of the legal proceedings and the judge's late decision to cut down the case against them, the Court of Appeal was told yesterday.

Mr Jonathan Cohen, a former County NatWest chief executive, Mr David Reed, a former head of corporate finance at County and Mr Nicholas Wells, a former County director, were all given 18 month suspended sentences at the end of the trial which lasted a year and four days. Mr Martin Gibbs, former head of corporate finance at UBS Phillips & Drew, received a one year suspended sentence.

All four men were convicted of conspiring to mislead the markets over the result of the 1987 Blue Arrow rights issue by secretly buying shares themselves to raise the take-up level announced to other investors. All except Mr Wells were in court to hear Mr Anthony Hooper QC open the appeals against their convictions.

Van sales up

UK commercial vehicle sales in June reversed 32 consecutive months of decline. But the slight sales increase was concentrated in the vans sector and manufacturers continued to show little optimism of an early truck market recovery.

BCCI creditors seek appeal

A group of individual creditors of the collapsed Bank of Credit and Commerce International appealed against last month's High Court ruling that sanctioned the $1.7bn compensation package negotiated between Touche Ross, the liquidators, and the bank's Abu Dhabi majority shareholders.

This follows the decision of the UK creditors' committee not to appeal when it was told that it might be liable for costs in the action rather than being able to recover appeal costs from BCCI assets.

Scheme for new N-plant

Nuclear Electric, the state-owned nuclear power utility, is likely to seek planning permission for Sizewell C power station in Suffolk before the government decides whether to give the go-ahead for further plants. A formal application for the £3bn twin reactor plan could be submitted to the local authority later this year – two years before the outcome of a ministerial review of nuclear power economics is known.

Bank wind-up bid delayed

An application by the Bank of England to wind up Rafidain Bank, the Iraqi state-owned bank, was delayed for another year in the High Court. Sir Donald Nichols, senior judge of the Chancery division, ruled that in view of the continued freeze on Iraqi assets the application should be adjourned until 1993.

Rain drain plan

Scotland may export water to England to relieve the water shortage, said Mr Allan Stewart, Scottish industry minister. The Scottish Office is examining a £1bn scheme drawn up by the construction industry for transporting water from the southern uplands of Scotland to England.

Orangemen on the march

More than 50,000 Orangemen took part in the traditional July 12 demonstrations throughout Northern Ireland. Unionist leaders sought to reassure meetings that traditional views were being safeguarded during the political talks taking place with the Irish government.

MANAGEMENT: THE GROWING BUSINESS

When relations become strained

An informal approach to hiring and firing staff often leads to trouble. **Diane Summers** offers some advice

Murder is commonly a family affair, as are numerous other unspeakable crimes that human beings perpetrate against each other.

Any small business owner employing other people needs to bear this in mind.

The more a business can boast it *"is just like a family"* as far as relations between bosses and workers are concerned, the louder the alarm bells probably ought to ring.

It could mean that little thought has been given to tedious matters such as contracts of employment, personnel records and disciplinary procedures.

The informality is fine when times are good but potentially disastrous when "family" members fall out, perhaps over redundancies, a dispute over pay, hours or holidays. Problems may be compounded by the employment of actual family members and the absence of professional personnel advice within the company.

According to Acas, the conciliation service, the assumption is that because lines of communication are short, problems will resolve themselves.

Acas daily sees the casualties of this approach; such a high proportion of cases come from small businesses that the service's enquiry team focuses on this sector.

In the London region alone, Acas becomes involved in 10,000 disputes over employment rights each year – nearly 20 per cent of the total for the UK – and deals with 80,000 enquiries.

About two-thirds are from employees and the rest are from employers and organisations.

Top of the employers' list, making up 26 per cent of complaints and inquiries, are issues relating to redundancies.

These are followed by disciplinary and dismissal problems (23 per cent) and other contractual issues (18 per cent). Then follow a host of other issues, including maternity leave, holidays and wages.

The first basic error made by many small businesses, which gives rise to these problems, is failing to write things down, says Acas. This starts even before an employee begins work – job descriptions and written details of essential skills, qualifications and experience, will help to clarify exactly what is required from the job and what sort of person will fill it most successfully.

As Chris Jones, acting director of Acas in London, says: "It's easier to knock a square peg into a round hole than knock it out again".

The law requires employers to provide written details of the chief contract terms within 13 weeks of the person starting work (other rules apply to part-timers).

These terms should include: employer's name; employee's name; date employment began; job title; amount of pay and interval between payments; hours of work; holiday pay and entitlement; sick pay and pension arrangements; notice periods; grievance and appeal arrangements; and disciplinary rules (where there are 20 or more employees).

As well as these "express" terms, the courts have established that certain "implied" terms are contained in all employment contracts. These relate to co-operation, good faith and health and safety.

Additional statutory rights, which cannot generally be overridden by contracts of employment, relate to sex and race discrimination, equal pay and maternity benefits.

Some workers will be covered by wages councils, in which case they will be entitled to minimum pay. Among other statutory rights are those covering sick pay, time off for various (including trade union) activities and union membership.

A company's own rules should also be written down to save arguments later (see checklist). But what if these rules are broken and things have gone so badly wrong that the employee needs to be disciplined or sacked?

According to Jones, the balance of power has changed over recent years. "Some companies used to think *you couldn't dismiss people at all*," he says.

Now employers are more assertive, but the rules still need to be followed carefully if the dreaded industrial tribunal is to be avoided – the time and trouble involved in a tribunal should not be underestimated.

A solid week's work, perhaps for the most senior person in the company, could go into form-filling, communications between the parties, and attending the hearings.

Average tribunal awards of £1,500-£2,000 may end up looking trivial when compared with the other costs involved.

In summary, following investigations and informal warnings, a disciplinary procedure will normally have the following four steps, says Acas:

- Formal oral warning – in the case of a minor offence.
- Written warning – for subsequent minor offences or a more serious offence.
- Final written warning – for further misconduct.
- Dismissal – with appropriate notice.

The fact that redundancy issues feature so highly among Acas' inquiries and complaints is partly linked to the recession – some small companies will be contemplating redundancies for the first time.

Selection for redundancy is a problematic area, particularly since the practice of "last in, first out" is in decline.

Acas warns against using criteria that are too narrow when it comes to selecting for redundancy, like basing selection solely on how often an employee is absent. Compulsory redundancies may be avoidable altogether – basic though it may sound, one employer recently in touch with Acas, for example, had not considered asking for volunteers.

Salary, bonus and deductions problems, as well as arguments over alterations to contracts of employment, are also more common since the onset of the recession.

Pay may be composed of several elements, including, for example, use of a company car outside work.

Does your company have personnel records?

Do they include for every employee:	YES	NO
Personal details – name, sex, date of birth, address, education, qualifications, previous experience, tax code, NI number, any disabilities.	☐	☐
Employment details – date employment began, date present job started, job title, basic pay, overtime and other extras.	☐	☐
Absence details – *sickness, lateness, authorised*, unauthorised.	☐	☐
Details of accidents	☐	☐
Details of disciplinary action	☐	☐
Training details	☐	☐

Are company rules written down?

Do they identify:	YES	NO
Misconduct – leading to disciplinary action, including, for example, persistent lateness, unauthorised absence and failure to meet known work standards.	☐	☐
Gross misconduct – leading to summary dismissal, including, for example, working dangerously, stealing or fighting.	☐	☐
Do they also cover:		
Absence – who should be notified and when.	☐	☐
Health and safety – including any special hazards, alcohol, smoking.	☐	☐
Standard of work – performance expected	☐	☐
Clothes – who will provide any special clothes needed, who is responsible for cleaning them.	☐	☐
Use of company facilities – including personal telephone calls and use of premises out of hours.	☐	☐
Holidays – any rules about when they have to be taken, e.g. summer shut-downs.	☐	☐

Source: Acas

An employee who is being paid off with a lump sum in lieu of notice may argue the car should be kept for the notice period, or may try to pursue additional compensation.

Bonuses and commission payments may also be a source of argument if the basis on which they are calculated is not clearly defined.

When margins are narrow, the incentive for small businesses to tighten up on timekeeping and cut down on waste will be even greater. *However, Acas warns against making unlawful deductions from wages*, for example for lateness or till discrepancies.

These sorts of deductions should not be made unless the employee's permission has been given in advance.

Agreement, preferably in writing, should also be gained before changes are made to contracts of employment.

An industrial tribunal may consider *it reasonable for an employer* to alter a contract without consent, for example to make essential changes in working practices resulting from developments in technology.

But Acas warns that proceeding *without agreement is a risky strategy* for an employer and could end in claims for unfair dismissal and – in the courts – wrongful dismissal.

Clearly, negotiating rather than imposing change will be likely, ultimately, to lead to a more co-operative *and flexible workforce*.

Misunderstandings may be caused by not spelling out to someone exactly what they are doing wrong; evading the issue or getting a third party to do the dirty work can create similar confusion.

Avoiding a face-to-face discussion about a problem "is in the British character", says Jones. Simply failing to ask for, or listen to, an employee's side of the story is a common root of subsequent tribunal action.

And when the firm that is "just like a family" has a breakdown in communications between family members, the ensuing feuding, ill-feeling and emotional as well as financial costs may be every bit as high as they would be in a domestic setting.

Employing people, the Acas handbook for small firms, can be obtained from Acas Reader, PO Box 797, London SE8 4JX. Enclose £1 to cover p&p.

Key to future is nation of first-stop shopkeepers

Lisa Wood reports on plans to establish a network of advice centres for entrepreneurs

Britain can no longer afford to waste its collective energy on "turf battles" between the different agencies delivering help and advice to small businesses, according to Michael Heseltine, president of the Board of Trade.

Heseltine outlined his views last week when he announced the establishment of an initiative designed to bring greater coherence to the delivery of advice and counselling services to small businesses.

A network of "first-stop shops" is to be established, eventually totalling 200, which will bring together under one umbrella most of the existing agencies that provide help to businesses. These include Training and Enterprise Councils (Tecs), local enterprise agencies and chambers of commerce.

Tecs will be responsible for getting the shops established. Introduced two years ago to revolutionise training in the UK, Tecs also have some responsibility for promoting the growth of small companies. Their brief includes the development of business information and advice services, administering the enterprise allowance scheme and providing training provision for small businesses and support for exporters.

Tecs are also charged with bringing greater unity to the many strands of help available and ensuring that any gaps in services are filled.

Resolution of this complex role in what is already a crowded area, has been one of the critical issues facing the movement.

A number of Tecs have been skilled at working with the other agencies. Barnsley and Doncaster Tec, for example, contracted with Doncaster Enterprise Agency to provide its enterprise allowance scheme, which offers unemployed people financial help to start their own businesses. Birmingham Tec, with several partners including the City Council's economic development department and Birmingham Chamber of Commerce has set up what it calls a "one-stop shop" which has information about a wide range of services.

But Tecs have come into conflict with the existing providers, most notably chambers of commerce, which are largely supported by voluntary subscriptions. The chambers have been annoyed that some Tecs, supported by public funds, have set up rival services and membership schemes drawing on the same client base.

The problem was not helped by the fact that the activities of the Departments of Employment and Trade and Industry were not co-ordinated.

But responsibility for a block of activities operated by Tecs, including business skills training, has been transferred from the DOE to the DTI.

The DTI is vigorously promoting the new "first-stop shops". Over the next few weeks, a working party will set-up models for the shops and the *DTI* has hinted that if successful, the first shops could take on a number of its responsibilities for giving business advice.

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Research comes back to the nest

Guy de Jonquières finds out why Nestlé is taking a closer interest in the commercial side of R&D

IT IS lunchtime at Nestlé's gleaming laboratory high on a hillside above Lausanne. Gathered round a canteen table, the company's top researchers are rejoicing at their liberation from the past with the sort of bright-eyed wonderment with which east Europeans greeted the collapse of the Berlin Wall.

In the past two years a minor revolution has swept through the laboratory, shaking its 600 researchers out of a cosy ivory tower existence and propelling them much closer to the cutting edge of the Swiss food manufacturer's global competitive strategies.

Nestlé invests SFrs120m (£46m) a year in research – and SFrs500m in development – making it the food industry's biggest spender on science and technology. But until recently much of the lab's work was only tenuously connected with the company's business.

"In the past, people here didn't get their hands dirty dealing with food," says Magnus Dagerskog, head of the lab's food technology department. "Everybody was busy publishing papers. They were trying to compete with universities."

Indeed, Nestlé researchers enjoyed an intellectual freedom which many academics would envy. Says Herb Hottinger, head of bioscience research: "When scientists joined the lab, they were told: 'Just work in this or that area. If you work hard enough, we're sure you'll find something'."

But the price the lab paid was to become a sterile backwater, cut off from Nestlé's global network of development centres and largely ignored by its operating divisions. As a consequence, much research never found commercial applications.

By 1990 Helmut Maucher, Nestlé's chairman, had had enough. Deciding a wholesale shake-up was needed, he recruited Werner Bauer, a German professor of bio-engineering, to bring the lab firmly back into the corporate fold.

This has been achieved partly by establishing formal links with the strategic business units (SBUs) into which Nestlé's commercial activities have recently been grouped as part of a wider corporate reorganisation. Each SBU now includes a research co-ordinator, responsible for two-way communications with the labs, which are encouraged to view the SBUs as clients.

Bauer, who previously worked at one of Germany's Fraunhofer institutes of applied technology, has reorganised the labs to focus their priorities more clearly and enable them to respond faster.

The company's senior researchers, far from being resentful, seem exhilarated by the fresh challenges they face. As Brian Suter, British-born chief of Nestlé's research and development puts it, they are full of "boisterous, exuberant, young ideas".

He concedes, however, that the new system still needs time to bed down. In particular, bridges are still being built with the rest of the company. "We have to get ourselves better known to the SBUs," says Jürg Löliger, head of the food science department. "They know we have the technology, but they don't yet realise our potential."

None the less, the new approach is already yielding benefits. For example, the lab took just two months to find a way to cut the salt in Lean Cuisine dishes by 30 per cent without using substitutes or changing the taste.

Researchers say five years would have been needed in the old system, because they would have gone right back to basic science. Instead, they devised a simple analytical model to identify ingredients in which a lower salt content would be least noticed by consumers.

Bauer has also expanded some areas of fundamental research, notably in molecular biology, where increased attention is being paid to enzymology. Overall, he aims for a 50-50 split between basic and applied research.

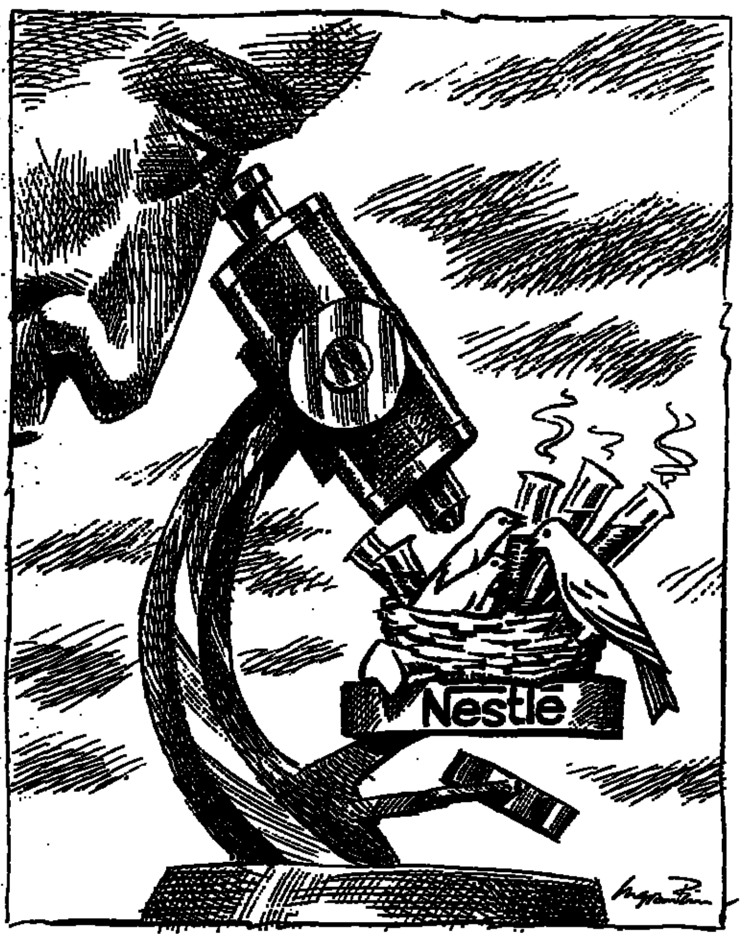
The trick is knowing where to draw the line: "In research, there is always a will to perfect. But a company can't afford that," he says. "Stopping at the point where learning curves become incremental is what I see as my major job."

All the more so because the huge marketing costs involved in launching brands are prompting Nestlé to gear research increasingly to strengthening established products, rather than inventing new ones.

The company points to Nescafé, its most profitable product, as a classic example of the approach. The brand has dominated the soluble coffee market for half a century, thanks to continuous up-dating of process technology and the regular introduction of new variants, the latest of which is instant cappucino.

Yet the Nescafé formula also sprang from innovations in Nestlé's laboratories which broke completely new ground. By focusing research more tightly in support of existing products, will the company not risk missing out on similar world-beating breakthroughs in the future?

Suter replies that the world has changed radically since the 1930s, when Nescafé was invented. Nowadays, innovations are much more expensive to develop and are much more quickly matched by competitors. Still, he says: "I wouldn't want to exclude that one day we may come up with another blockbuster like Nescafé – it may just be possible."



A mover and a shaker

WERNER BAUER is light years away from most people's idea of an academic scientist. A fast-talking 40-year-old who likes to start each day with a swim in Lake Leman, he bristles with get-up-and-go energy.

He is also a firm believer in decisive management and accountability. "From the beginning, I wanted strong managers in the lab who could influence decisions and make things happen," he says. "I don't believe in co-ordination. I believe in power. I'm a Bavarian."

Yet, he has also exhibited a keen sensitivity and concern for the human touch. Before taking up his job, he took extensive soundings among its researchers, interviewing 200 of them in two months.

To find out whether they were "analysts", "lateral thinkers" or "implementers", he asked them questions such as whether they owned a motorbike and how they serviced it. "You can tell a lot about people's skills from their answers," he says.

Then he moved into action. About 30 older staff were persuaded to take early retirement, and the lab's sprawling operations were grouped into seven departments.

In choosing department heads, Bauer looked as much for administrative and personnel management skills as for scientific ability. Each is expected to act as a "pusher", setting goals for members of his team and monitoring their performance closely.

A hierarchy of priorities has been set for research, by dividing it into four categories: basic science and technology; development of technological tools; projects sponsored by the SBUs; and short-term tasks closely related to the market.

Bauer and Suter lay much stress on good communications and human relationships. To build team spirit, Bauer has installed relaxation areas in the labs, where researchers can meet and talk, and organises cultural events such as musical evenings and art displays.

Though some old-timers have found it hard to adjust, Bauer insists most of his staff have responded positively. "Almost 100 per cent of them are now really working for Nestlé," he says.

Baner's next task is to integrate research with Nestlé's network of international development centres. The ultimate goal is to speed innovation by synchronising R&D more closely.

But changing such a complex set of relationships in a company Nestlé's size will be a gradual process, he says: "We have to build up trust. That will take some years."

Technically Speaking

The limitations of computer prose

By Jane Dorner

"Word-processing manufacturers are getting over-ambitious. Not content with offering inventive features to make the mechanics of writing easier, they are now providing language lessons on line.

Already half a dozen top word-processors have grammar "checkers" built into them, and this year a whole sweep of packages for polishing prose has emerged. The latest programs aim to help people in business to produce good, structured, accurate writing.

The theory is that there are identifiable steps to writing good prose which software can make easier.

The first task is to choose a subject. The computer runs "brainstorming software" to help spawn the idea, followed by a "writer's block evader" to get over the fear of a blank screen.

The next stage is to outline a structure. By scanning business writing advice programs, good letter writing plans, report writing skeletons or random plot generators the user is offered a selection of templates.

Once the basic outline is ready the user begins to write. If stuck for a word, a spicy quote or impressive fact, the requisite dictionary can insert it into the text at the press of a button.

Also available for quick reference are thesauri, multilingual dictionaries, usage advice, abbreviations and automatic hyphenators. All this will occupy a sizeable chunk of the hard disk and active memory.

Finally, after the piece is written, correction programs sift through the text, pouncing on infelicities of style, punctuation, grammar and usage.

There's almost nothing the software linguists haven't thought of to take the pain out of writing. There are some 30-40 types of software beyond the word-processor itself – all apparently selling well. It seems that Britons and Americans are sufficiently insecure about their ability to express themselves that they support an entire industry of computerised language lessons.

This ought to be good news for managers who are anxious about standards of English teaching in schools. Unfortunately, however, providing a suite of writing tools for staff is only a palliative, not a substitute.

Programs that act as reference books on line are handy, but the user has to know whether a problem exists in the first place. That's fine for checking if Middlesbrough has one or two Os in it, but whether to put a question mark before or after a closing quotation mark is a trickier matter.

The trouble is that the limitations on computer memory make it impossible for a program to provide sufficient information about the intricacies of an entire language. This is not surprising as language is too rich to be stuffed within the confines of a personal computer program. Most advice is glib.

Programs that check for errors of grammar or idiom may be a boon to those who recognise the error and can quietly put it right before the client sees it. But they are no good for users who are unsure. Software analysis can easily come up with an incorrect diagnosis or offer inappropriate comment.

Even if it does offer some useful learning points for the insecure writer (when to use "its" or "it's") such programs are only worth their price to those who can sort the wheat from the chaff. And those people trust their instincts, not a number-crunching, pattern-matching system.

One has to admire the ambition of the software producers who have set themselves the impossible task of taming language to fit computer capabilities. The danger is that some users may depend too heavily on such programs to mask their own shortcomings.

Style-checkers encourage deadened prose based on limited criteria of excellence. Good, structured and accurate writing comes from practice, not from software."

Jane Dorner's book, Writing on Disk, is published by John Taylor Book Ventures. Price £15.95.

THE WEEK IN LUXEMBOURG

UK 'net book' agreement contravenes EC law

EUROPEAN COURT

The UK Publishers' Association's system of resale price maintenance (RPM) for "net books" has been thrown into doubt by the Court of First Instance's affirmation of a 1988 EC Commission decision that the net book agreement (NBA) infringes EC competition rules. Implementation of the decision had been suspended pending the outcome of the PA's appeal. The Court's judgment will now preclude the application of the NBA to imports and re-imports from other EC member states, and also casts doubt on arguments previously used in the UK to justify the NBA.

The NBA requires UK publishers to impose uniform RPM conditions on booksellers for the resale of "net books". The conditions also apply to net books exported to or re-imported from Ireland and other member states, and also to retail exports to other member states. The NBA had been approved in 1962 and 1968 by the UK's Restrictive Practices Court, as leading to lower prices, more stock-holding bookshops and more numerous and varied titles.

The Commission held Article 85(1) applied to the agreements "to the extent that they cover the book trade between member states". It rejected the PA's request for an exemption under Article 85(3), as the restrictions on competition were not "indispensable" for achieving the benefits claimed by the PA.

The Court confirmed that Article 85(1) applied, rejecting the PA's argument that, for imported books, the NBA operated only after the books had been imported and thus could have no effect on inter-state trade. It also rejected the PA's complaint that the Commission had improperly changed the basis of its objections during the procedure.

Significantly, the Court also specifically rejected the PA's four substantive arguments on the "indispensability" issue. The Court did not accept that publishers would face substantial difficulties in notifying individually fixed terms of trading to booksellers and others. Nor was it established that booksellers would face an unmanageable burden if publishers had different conditions as to discounts and other departures from the NBA structure, particularly since computerisation was now widely available. Third, claims that the NBA reassured booksellers as to their competitors' conduct did not justify collective arrangements between publishers, since enforcement was in practice a matter for the individual publisher. Last, there was no necessity to allow monitoring by the PA of the common conditions.

Case T-66/89, Publishers' Association v Commission, CFI 2CH, July 9 1992.

Sunday trading issue to be determined by member states

Clarification of Sunday trading rules and their compatability with EC law may follow Advocate-General Van Gerven's latest opinion on three preliminary references from the High Court, the Reading and Sonning Magistrates' Court and the House of Lords. The Sunday trading issue has been the subject of some considerable interest in the United Kingdom and other member states. In spite of the fact that the ECJ has ruled upon Sunday trading rules three times, there was still confusion over their compatability with EC law.

The Advocate-General explained first why there was no inconsistency between *Torfaen* on the one hand, and *Conforama* and *Merchandise* on the other. All three cases had found that domestic provisions restricting trading on Sundays fell within the ambit of EC rules on import restrictions; the question at issue was whether such domestic provisions could be justified under EC law. In *Conforama* and *Merchandise*, the ECJ had all the necessary elements to decide the justification issue, whereas, in *Torfaen*, factual issues relevant to proportionality had to be dealt with by the national court.

The Advocate-General then considered the criteria to be used to determine whether such provisions could be justified and whether it was for the national courts or the ECJ to apply such criteria. The issue of justification fell to be decided in two tranches. First, it had to be seen whether the measures pursued an objective consistent with EC law; this was a task for the ECJ, having had the relevant policy objectives drawn to its attention by the national courts. Second, the measures had to be relevant, essential and proportionate to the objective pursued. Generally, it was for the national court to decide these issues on the basis of criteria laid down by the ECJ. However, the ECJ could itself apply the tests where all the necessary information on the domestic measures had been provided by the national court and was not in doubt.

Tested against these criteria, the Advocate-General confirmed that the UK Sunday trading rules pursued an objective justified under Community law and that, although, in his view, the restrictions were proportionate to their objectives, the issue was in principle to be determined by the national courts.

Case C-306/88, Rochdale Borough Council v Stewart John Anders; Case C-304/90, Reading Borough Council v Payless DIY Limited and others; Case C-169/91, Council of the City of Stoke-on-Trent and Norwich City Council v B & Q Plc. Opinion, Van Gerven, July 8 1992.

Students' residence directive annulled

Council Directive 90/366 on the right of residence for students has been annulled on the ground of incorrect legal base. The European Parliament had challenged the Directive, contending that the correct legal base should have been Art.7(2) EEC, which involves the "co-operation" procedure with Parliament. The Court however ordered that the Directive should continue to have its effects (ensuring non-discrimination for students moving within the EC) until the adoption of new legislation.

Case C-295/90, Parliament v Council, ECJ FC, July 7 1992.

In its final listed week before the summer vacation, the European Court delivered 11 judgments as well as two important opinions in the Woodpulp and Sunday Trading cases. This week, emphasis has been placed on the judgment by the Court of First Instance on the net book agreement and the Sunday trading opinion by Advocate-General Van Gerven. Those cases decided this week but not examined today will be covered next week.

BRICK COURT CHAMBERS, BRUSSELS

PEOPLE

Ever since Sir Gordon Borrie stepped down last month as Director-General of Fair Trading after 16 years in the job, there has been speculation about what he will do next. He is still only 61 and somehow it never seemed likely that he would withdraw from the battle for consumers' rights to grow roses in the Cotswolds.

Now comes news that he is to join the Council of the Ombudsman for Corporate Estate Agents, a voluntary scheme set up two years ago to handle complaints against the large chains of estate agents taking part in residential property transactions. Few people have done more than Sir Gordon to change the face of the industry. He was the driving force behind the 1979 Estate Agents Act and the 1991 Property Misdescriptions Act which is about to come into force. As Lady Ewart-Biggs, the OCEA Council chairman, said yesterday, no one else knows as much as Sir Gordon about the regulation of estate agents. Rogues had better beware.

Kenny joins Potter at Guinness Mahon

Kevin Kenny, chief executive of fund management and financial services group Tyndall Holdings in the difficult period before it was acquired by Jupiter Tarbutt Merlin last summer, has resurfaced at Guinness Mahon, the small merchant bank owned by Bank of Yokohama.

Kenny becomes director of international private banking, with the three overseas operations – Guernsey, Dublin and Zurich – reporting for the first time to a single board member.

Tyndall suffered heavy losses in the Australian market, with the then boss Garnet Harrison subsequently resigning. Kenny, who had been in charge of the Tyndall banking division, took over as managing director of the group in the autumn of 1990. David Potter, chief executive of Guinness Mahon, was also made non-executive vice chairman of Tyndall at the time, which was how the two met.

Tyndall fell under something of a cloud as a result of the Australian debacle. In the past few months there has also been an unseemly wrangle between Jupiter and former Tyndall directors over the management of two funds, Pacific Horizon and European Project.

But Potter says that he was impressed with Kenny's efforts to restructure Tyndall: "He did a great job keeping it moving through the water". Potter also contends that the banking side of Tyndall was, and is, very sound. "When I knew he did not have a perch [after the Jupiter acquisition] I naturally engaged him in conversation." Kenny has been a consultant to Guinness Mahon for several months: "There is no better way for both sides to do their due diligence," according to Potter.

■ Christopher Harrison and Andrew Hartley will be relinquishing seats on the board of James Wilkes, the engineering company, following the sale of the group's promotional products division last week for £11.4m. Some of Wilkes's shareholders were told by advisers at the time of February's failed bid for Wilkes by Petrocon that if the group maintained its independence the two directors would leave the board.

The two directors' service contracts are being terminated conditional on the completion of the disposal.

■ John Hayden, deputy chairman of PROPERTY PARTNERSHIPS, is retiring.

■ John Cohlan has resigned from MOUNTLEIGH.

■ Michael Klanfar has resigned from ENTERPRISE COMPUTER HOLDINGS.

■ Bruce Ralph has resigned as chief executive of DOWTY but remains with the company and will undertake special duties; John Benson, director of human resources, has also resigned but will continue as a consultant.

■ Eric Coward has retired from SUN ALLIANCE.

■ John Lamberson has taken early retirement from WILLIS CORROON GROUP.

Finance moves

■ Simon Toynbee, formerly investment director of Mercury Fund Management, has been appointed head of investment at PRINCIPAL INVESTMENT MANAGEMENT GROUP.

■ James Barstow and Richard Killingbeck have been promoted to the board of RIVER & MERCANTILE INVESTMENT MANAGEMENT.

■ John Baker has been promoted to md of NICKERSON INVESTMENTS on the retirement of Colin Tickner who remains chairman.

■ Richard Kilsby, formerly vice-chairman of Charterhouse Bank, has been appointed an md at BANKERS TRUST.

■ Richard Webb, recently chairman and ceo Australia, has been appointed deputy ceo North America for BARCLAYS BANK.

■ Charles Mierzejewski has been appointed vice-president eastern Europe for CHASE MANHATTAN BANK.

■ John Kelly, formerly a director of Brown Shipley, has been appointed corporate finance director of CLOSE BROTHERS.

■ Michael Glover has been appointed md of GROSVENOR VENTURE MANAGERS in place of Robert Drummond who becomes executive chairman; Jonathan Portal becomes company secretary.

WPP selects new chairman

WPP, Martin Sorrell's marketing services group, is elevating David Ogilvy, its 81-year-old chairman, to the title of President Emeritus. He will also continue as a consultant to the group. His move will take effect after a shareholders' meeting on August 5, called to consider a refinancing proposal which will, bankers believe, either save or break the company which ran into difficulties after borrowing heavily to buy companies – such as Ogilvy and Mather.

Ogilvy's replacement as chairman is to be Gordon Stevens (right), who is a mere 66. He is described as an energetic chap, known for making witty asides during agm addresses – something WPP shareholders will appreciate, no doubt.

He joined Unilever, the consumer products group, as a trainee in 1949, and became a director in 1976 when he was "toilet preparations co-ordinator". In 1978 he took charge of the marketing division, moving in 1983 to head Unilever's North American business, succeeding Michael Angus (as he then was) who had pulled that business out of losses. He retired in 1988 and since then has become non-executive chairman of Scholl, the footcare company.

War diary of a Vorticist

William Packer

PERCY Wyndham Lewis – painter, novelist, critic, polemicist, agitator – died in 1957 at the age of 74, his sight all but gone and, in his reputation, an acknowledged but marginal figure. Yet through the 1910s and up to the Second World War he had been one of the great men of the Modern Movement, the embodiment of the avant garde.

Born in the US of an American father who abandoned his family, he was brought to England as an infant by his British mother, and in England he remained, apart from the period of the Second War, which he and his wife passed in Canada and New York.

Yet his provenance established in his character, not exactly a rootlessness, but a certain distance and sceptical disaffection that throughout his active life would put him at odds with British institutions and attitudes, social, political and aesthetic.

He was never one not to make his presence felt, and perhaps his habitual vehemence and asperity became a shade monotonous and predictable, and he was not taken too seriously in consequence – only old Lewis sounding off again. But in the vigour and confidence of his youth, in the years before 1914, he was a true leader and inspiration to his generation.

He had been at the Slade around 1900, a student of Tonks, friend and contemporary of Augustus John. In the next few years he travelled wide and often, becoming the familiar of the international avant garde, intimate of Pound and Eliot.

William Rothenstein remembered him in those early days as "even then (showing) signs of a formidable personality. He hesitated between writing and painting... He liked to shroud himself in mystery. After hiding for weeks, he would suddenly reappear, having been, he would declare, in Sweden, or in some remote country... He certainly went later to join [Augustus] John in Paris... [theirs was] an intimacy frequently disturbed by violent quarrels and again renewed."

His greatest public moment came a little later, in the year or so immediately before the First World War, when his own familiarity with Cubism in France and Futurism in Italy bore fruit in Vorticism, that was Britain's own, short-lived equivalent.

A younger Sladeite generation was committed to the movement, that included Bomberg, Epstein, Gaudier-Brzeska, Wadsworth, Roberts and Nevinson, but Lewis was its prime mover, chief apologist and polemicist. The review *Blast* was its banner and battle-cry, surviving for only two issues that challenge us still.

Two samples: "BLAST years 1837 to 1900... BLAST their weeping whiskers... SENTIMENTAL HYGIENICS... ROSSEAUISMS... PURGATORY OF PUTNEY". And "BLESS ALL PORTS... RESTLESS MACHINES of scooped out basins, heavy insect dredgers, monotonous cranes... BLESS ENGLAND, industrial island machine..." This tribute was to the machine in a brave new mechanical age, unsentimental and implacable, and one that all too soon was to achieve its awful apotheosis.

But Lewis's disillusionment was to wait upon the long aftermath of the War. Like so many of his artist contemporaries, and many more besides, he went to War young and happy, excited and stimulated, and found in the extremities and deprivations of the Western Front a kind of fulfilment. And his artist-self went with him. He was a gunner, with the Royal Garrison Artillery, and it is this close, oddly monastic community, the quiet and steady hierophants of destruction at their altars that supplies the essential subject of this exhibition at the Imperial War Museum.

The mood is reserved, detached, objective, the treatment formal in its interest and mannered in its character.

"Whatever happens", Lewis had written in 1915, in his second *Blast*, "there is a new section... that is, for want of a better word, the Abstract."

But by now, so strong was the immediate, phenomenal world, that theory and principle had fallen, and abstraction long given way to the abstracted. And indeed it is the conscious mannerism, the formal preoccupation with peculiar rendering of the image, that gives the work its distance and cool reserve.

It is no unusual paradox that by being so, far from being callously indifferent, the work seems rather to gain an added force and poignant humanity. An officer lounges with studied languor as the men receive their rum. A single gunner, a powerful silhouette against bright cadmium yellow, tugs at the lanyard to fire the gun. Men heave on the ropes, dig their pits, lay their guns, hump their shells, fire their salvoes, go out on patrol, attack, dive for cover.

Just so, the mundane life of the trenches, goes on. And no anti-war tract or polemical image, even Lewis's own symbolical compositions of later years, could ever say so much and ring so true.

The Imperial War Museum is the repository of one of the finest public collections we have of modern British art, notwithstanding its necessarily specialised nature. Sadly, there is no longer any permanently changing display of its riches, which makes these rarer treats all the more worth savouring.

Wyndham Lewis: Art and War: Imperial War Museum, Lambeth Road SE1, until October 11; in conjunction with the Wyndham Lewis Memorial Trust.

Wyndham Lewis's Great War Drawing No. 2 of 1918, pen and ink watercolour

London theatre

The Television Programme

THE main point of interest about the new production at The Gate is that this is the first play I have seen that discusses the problems of long term unemployment.

If the theatre in the mid-1990s is to tackle serious social questions, this surely must be one of them. Even in France, a country whose economic performance is generally praised, unemployment has remained close to 10 per cent for almost a decade. And it is from France that *The Television Programme* comes.

Michel Vinaver's piece is not a particularly good play, or at least not in this translation by David and Hannah Bradby. It *attempts to combine too many* themes, and dots about too much.

In just over two hours, we go through the corruption of the French system of justice, the corrupting effects of television programme-making and an unresolved murder, as well as the effects of redundancy on the middle-aged. Nevertheless, it has its striking moments.

Three aspects stand out. The first is the method of the interrogations conducted by the magistrate Phelypeaux, played by Guy Burgess.

The French approach to justice is sometimes said to be superior to the English because it tries to establish what happened before putting people in court. Here Phelypeaux asks questions, then produces a statement which the interrogated duly sign. The statements are by no means complete fabrications, but they are at best inaccurate summaries. If that is indeed how the French system of justice works, Vinaver is to be congratulated for illustrating it.

The second and more familiar aspect is how television programmes can have an exaggerated idea of their own importance. Here the search is on to find a member of the long-term unemployed, persuade a company to give him a job and put the story on film as a topical human interest programme, with the TV channel getting the kudos for exploiting it. The competition among the programme-makers leads to tears and possibly murder.

The third aspect is middle-aged unemployment itself. Vinaver had nearly 30 years' experience of business with Gillette International and presumably knows all about the three 'R's': rationalisation, restructuring and redundancies. "You're a civil servant," says the 50-year-old victim to the magistrate. "What happened to me will never happen to you."

The Television Programme, like most television programmes, does not go into the subject in any great depth, but at least it registers that here is something worth writing about and which is unlikely to go away in the near future. British playwrights could do worse than pick up the theme.

The piece is directed by Kim Dambaek and is the first of a season of Six Plays for Europe under the Gate's new artistic director, Laurence Boswell.

Malcolm Rutherford

Gate Theatre, London W11, until August 1. (071) 229 0706

Olof Baer recital

THE programme chosen by the Dresden-born baritone for his recital with pianist Geoffrey Parsons at the Royal Opera House on Sunday night was tasteful and chronological: a brisk survey of the Austro-German lyric art (with a glance in the direction of Hungary), beginning with Mozart and Beethoven, proceeding to Schubert, Mendelssohn, Schumann and Brahms, and culminating in Hugo Wolf, with encores from Liszt and Strauss.

Mr Baer's baritone is light and smooth and well-nigh perfectly formed, projecting easily into the big auditorium while still sounding intimate and suave. His enunciation of the German words was immaculate even to a fault – his diction had a shapeliness that sometimes seemed self-regarding. Just as his stage manner is sweetly pleasing, so his way with these *Lieder* too often seemed like prettification rather than interpretation. His approach was seldom searching and his considerable beauty of tone was more dutiful than original.

The critic Roland Barthes listened always for the "grain" of an art-singer's voice, its trace of individuality or eccentricity, its cutting edge, even its flaw. Mr Baer is a singer pretty well devoid of this quality, though an occasional excess of vibrato in the voice might count as some kind of flaw, while at the end of Schubert's haltingly rapturous *Dass sie hier gewesen*, on the word "Tränen" (tears), he wittingly or no came out with a quivering or weakening of tone that had a certain "granular" force.

But nearly all his items passed by as the merest diversions of a genteel summer evening – Mendelssohn's Heine settings, Brahms's Hungarian folksong adaptations, even Schumann's *Widmung* (Dedication). One did prick up one's ears a little at Beethoven's *Adelaide* and a little more at Wolf's Eichendorff settings, particularly *Verschwiegene Liebe*, in which Mr Baer gave evidence of a more commanding artistry.

However, as is frequently the case with song recitals, it was in the very last encore, Strauss's *Zueignung* (another Dedication), that the singer really came into his own. This had abruptly gripping conviction and power. Mr Parsons was more consistent: he had supplied accompaniments of quiet mastery throughout.

Paul Driver

Music at the Almeida

David Murray

NOW that the greatly loved Almeida Festival has become an Almeida (new) Opera season, non-operatic music is a receding factor: not abandoned, but distinctly marginalised. Three concerts on Sunday, however, made their marks, some of them black.

First there was the Argentinian pianist Alma Petchersky, billed to play the complete *Goyescas* of Granados – with its bright pendant "El Pelele", which the composer wanted always to be included even if other movements were dropped.

As we learned upon arriving at the Almeida, Miss Petchersky had decided to omit it, *and* the big opening "Requiebros" and the Fandango; in fact she offered a bit more than half of the music, just four movements for patrons who had paid £6 or £8 to hear the whole cycle. I thought that rather disgraceful, but I judged prematurely.

In the event, it was so dispiriting to hear her pick her way through the chosen movements – slowly and carefully, eyes glued to the score – that it would have been quite dreadful if she had played them all. For that relief, much thanks. By sight-reading standards she was neither unmusical nor especially inaccurate; but these appealing, diffuse, self-quoting pieces need a flair, a variety of touch and an instinctive long breath which are unavailable to a pianist who is still learning the notes.

That recital, billed absurdly as "Goyescas I", was followed by a "Goyescas II" from a more efficient pianist, a young Belgian who likes to be known as "Luk".

His grab-bag programme consisted of old Krenek's Sonata no. 7 (defiantly academic-"serial", but quite lucid and mellow), pieces by the Almeida opera-composers Nils Vigeland and Nigel Osborne (essentially neo-romantic), and curious stuff by three composers of whom the programme-book told us nothing except that one Spaniard was the pupil of the other.

Emiliano del Cerro's *Imagen Contrapuesta* was skeletal, rebarbative and silly, and his teacher Luis de Pablo's *Retratos y Transcripciones* echoed well-tried experiments from 20 years back.

The excuse for the recital-title came from a new *Goyescas* by the Flemish Boudewijn Buckinx: 13 vignettes after Goya, almost innocent of compositional technique but fluently pianistic, and often poignant in their backward-looking, tonally disjointed way.

Later, the Almeida Cello Ensemble offered more grown-up stuff. If the rock-oriented *Ostinato* by Ferrero and Takayuki Rai's slick *Recursive Figuration* sounded like professional exercises, Henze's lovely 1963 cantata *Being Beauteous* and Rupert Bawden's new *Mörike Lieder* made bigger waves.

Both of those enlisted Skaila Kanga's high-definition harp and Sarah Leonard's beautifully assured soprano, to irresistible effect: the first work conducted by David Parry, the other by its composer.

Bawden's idiom here manages somehow to combine the ripe musical language of Berg's Lyric Suite with the unmistakable tone of pre-war English pastoral. It bypasses Britten (who nearly went to Vienna for lessons with Berg, and was thwarted at the last moment), but its harmonic diction remembers the Vaughan Williams of *Wenlock Edge* and the "Tallis" Fantasia, and therefore Brahms.

I predict a late, self-critical maturity for Bawden which should generate serious rewards.

Almeida Opera continues to 19 July. Goyescas I & II was sponsored by The Elephant Trust

The Libertine

THIS is a bold, welcome staging by The Ten Trumpets Theatre Company of the first Don Juan play to reach the English stage. Thomas Shadwell's work was last performed in 1740 and it is easy to see why it has been resting for more than 250 years; and easier to see why it should be staged again now. Although it lacks dramatically, the 1990s make fertile ground for its issues: misogyny and men's self-deceit.

The tragi-comic story is familiar enough. The Don's women turn either to doe-eyed devotion or wide-eyed anger. His sidekicks wallow in his miscreancies; all of them have a taste of hell – and the chance to repent – before the statuesque dinner guest hauls them off.

The Don John character holds the play together, principally because Shadwell wrote no other substantial part.

Jim McKechnie in the title role gives a remarkable performance. He manages to be consistently vicious and libidinous, in touch with his conscience long enough to enjoy ignoring it.

Marcus Goodwin's direction *speeds the plot; and there are* good cameo pieces from Lia Zografou and Eddie Marsan.

Andrew St George

Pentameters Theatre, Hampstead (071) 435 3648, to 19 July

Someone Who'll Watch Over Me

WHY Frank McGuinness's new play should take its name from a verse-line of the Gershwins' song (used here to cover most of the scene-breaks) instead of its real title, "Someone to watch...", is the least puzzling thing about it. Doubtless that simply avoided some hassle about copyright. Everything else about the piece – a chamber trio for three Western hostages in a Beirut cell – is more tantalising. ("*Huis clos* with jokes," said my companion.)

The more tantalising, because it is manned by a dream cast that could not imaginably be bettered. Hugh Quarshie, Stephen Rea and Alec McCowen inhabit their characters completely. If there are any lapses in the script, they conceal them with shining conviction.

Obviously the play was prompted by the plight of John McCarthy and his cell mates. No less obviously, McGuinness has no intention of re-telling their story. Instead, he gives us a different kind of story: "There were an American, an Irishman and an Englishman..." The Arabs don't get a look-in, either as wicked captors or as ideologues. Nobody discusses geopolitics; none of the prisoners is beaten or tortured. One does die – but the guards are said to be embarrassed and sorry about that.

This is hardly a hostage-play at all, but a Shavian conversation-piece for national stereotypes, highly self-conscious ones. Quarshie's calm, stoic American doctor works relentlessly at keeping himself in shape. (It is piquant that nothing is made of his being black: did McGuinness *really* write the role with a black actor in mind?) Rea lavishes all his wry, vulnerable charm on the Irish newsman. As the elderly, prissy English professor, McCowen is of course immaculate, and of course he gets to recite bits of *The Wanderer* in the original Old English.

McGuinness seems deliberately to have given no overt *structure to the piece. There* aren't even any surprises to speak of – just the endless conversation, articulate, searching and frequently witty. Unlike most Shavian ones, it does have moments of intense feeling; but they are held within careful restraints, as if to insist that individual pain and despair are not what this play is chiefly about. Robin *Lefèvre has directed the proceedings with perfect tact.*

David Murray

Hampstead Theatre, NW3, to 1 August; (071) 722 9301

INTERNATIONAL ARTS GUIDE

■ ATHENS

ATHENS FESTIVAL
At the **Odeon of Herodes Atticus** tonight and tomorrow at 21.00, Tanztheater Wuppertal gives performances of a Pina Bausch choreography entitled Carnations. Sun and next Mon: Art Theatre of Karolos Koun in Aristophanes' Clouds. Next week: Sankai Juku, Japanese Buto Dance Theatre. July 29-Aug 2: American Ballet Theatre (322 1459)

EPIDAURUS FESTIVAL

The annual festival of ancient drama in the 14,000-seat amphitheatre at Epidaurus has plays by Sophocles, Euripides and Aristophanes on most weekends in July and August. The next performances are on July 24 and 25, when the National Theatre of Greece brings its production of Aristophanes' The Knights. Tickets are available daily at the Athens Festival box office (322 1459); or at the theatre of Epidaurus every Thurs, Fri and Sat (0753-22006)

■ CHICAGO RAVINIA FESTIVAL

Tonight's concert, entitled an evening of New Country, is given by fiddle virtuoso Mark O'Connor and the David Grisman Quintet, and features bluegrass, R&B, Texas fiddle music, blues and boogie.

Tomorrow: Manhattan Transfer. Thurs: jazz cabaret with Susannah McCorkle. Fri and Sat: James Conlon conducts the Chicago Symphony Orchestra, with Andre Watts soloist in Liszt's Second Piano Concerto (Fri) and Alicia de Larrocha in Schumann's Piano Concerto (Sat).

Sun: Viennese night with the Chicago Symphony. Alicia de Larrocha gives a piano recital next Mon. Next week's concerts are conducted by Gennady Rozhdestvensky. July 31 - Aug 8: Andre Previn. The festival runs till early September. All concerts are broadcast to the lawn for outdoor listening. Lawn admission is always available (312- 782 4642).

■ GENEVA

This summer's music programme at the **Cour de l'Hotel de Ville** is built around the theme of *dialogue between* Europe and Latin America. Tonight's concert by the Orchestre de la Suisse Romande is conducted by Laurent Gay and includes works by Dvorak, Nono, Ginastera and Debussy. Fri: Gilbert Varga conducts works by Copland, Weber and Villa-Lobos. Tomorrow, Thurs, Sat, Sun: Geneva Chamber Opera production of Mozart's La finta semplice (312 4353)

■ MUNICH

OPERA
Munich Opera Festival: Carmen tonight at the **National Theater** is a new production staged by Lina Wertmuller and conducted by Giuseppe Sinopoli, with Agnes Baltsa, Thomas Moser and Robert Hale (also Sat). Tomorrow and Fri: Wolfgang Sawallisch conducts Der fliegende Hollander, with Alfred Muff and Julia Varady.

Thurs and Sun: Colin Davis conducts Don Giovanni, with Thomas Hampson and Anna Tomowa-Sintow. Next week: Peter Grimes and Dvorak's Dimitrij. Tonight's chamber music concert in the Cuvillies Theater is given by members of the Bavarian State Orchestra. Edita Gruberova, accompanied by Friedrich Haider, gives a Strauss and Schubert recital tomorrow in the **Prinzregententheater**. Next Mon: Margaret Price, accompanied by Graham Johnson, gives a Schumann and Brahms recital in the **Herkulessaal der Residenz**. The festival ends on July 31 (221316). Next week at **Deutsches Theater:** Martha Graham Dance Company (5144 360).

CONCERTS

Chuck Corea gives tonight's concert at **Gasteig**. Tomorrow: Eddie Daniels and Garry Burton Quartet play the music of Benny Goodman, plus George Shearing Duo. Fri: Bill Evans Superband. Sat: Betty Carter Trio. Sun: Herbie Hancock and Wayne Shorter in a Miles Davis retrospective. Next Mon: Friedrich Gulda. July 22: Wynton Marsalis Septet (299901).

■ NEW YORK

JAZZ
Blue Note Jazz Club and Restaurant: This week's special guest is the Charlie Watts Quintet. Showtimes at 21.00 and 23.30. Dining (475 8592)

■ CONCERTS/OPERA

Avery Fisher Hall 20.00 Mostly Mozart festival: Gerard Schwarz conducts a programme in which Itzhak Perlman plays Mozart's Third Violin Concerto, repeated tomorrow. Thurs: song recital by Olga Serra. Fri and Sat: Garrick Ohlsson plays Mozart's Piano Concerto No 18 (875 5030). Tomorrow and Thurs in **Carnegie Hall:** Kurt Masur conducts Tchaikovsky (247 7800)
Metropolitan Opera 20.00 Kirov Opera production of Boris Godunov, repeated tomorrow. Thurs: Queen of Spades. Fri and Sat: Fiery Angel (362 6000). Thurs in **New York State Theater:** opening night of NY City Opera's 1992 season (870 5570)

■ SEVILLE EXPO

JAZZ
This week's programme in the open-air Auditorium (5500 seats) includes tributes to Charlie Parker, John Coltrane and Miles Davis, plus a Dominican gala on Thurs.

THEATRE

A five-night run of Calderon de la Barca's play La Vida Es Sueo, directed by Robert Sturua, opens tonight at the **Lope de Vega Theatre.**

DANCE

The **Central Theatre** has the Deschamps & Deschamps dance group tomorrow, Thurs and Fri. The **Roman amphitheatre at Italica** has Balletmet of Ohio tonight and the Compagnie Regine Chopinot on Fri and Sat. Next Mon and Tues: English National Ballet.

OPERA

The Opera Bastille production of Otello, starring Placido Domingo, will be shown at the **Maestranza Theatre** on Sun and next Wed, with an orchestral concert conducted by Myung-Whun Chung next Tues.
● For further information, dial 0034 5 448 0404 from outside Spain, or 902 221992 in Spain.

■ WASHINGTON

WOLF TRAP
George Benson gives tonight's concert. Tomorrow: Rakhmaninov programme with David Zinman and the Baltimore Symphony Orchestra. Thurs: Oak Bridge Boys with Billy Burnette. Fri: The Nylons and Paula Poundstone. Sat: Mary Chapin Carpenter. Sun and Mon: The Temptations and Four Tops. Next Tues: The Righteous Brothers. July 26 and 27: Johnny Mathis and Henry Mancini (Filene Center at Wolf Trap, 703-218 6500).

BLUES ALLEY JAZZ

Tonight's guest at the **Blues Alley Jazz Supperclub** is Davey Yarborough (sax). Tomorrow: Marty Nau Quintet. Thurs: T-Square (Japanese/contemporary). Fri, Sat and Sun: Junior Walker and the All Stars. Dining from 18.00, showtimes at 20.00 and 22.00 (1073 Wisconsin Ave, in the alley 202-337 4141).

BALTIMORE SYMPHONY SUMMERFEST

The Baltimore Symphony Orchestra's music director, David Zinman, conducts Rakhmaninov's Third Piano Concerto (Nelson Freire) and Third Symphony tonight at **Joseph Meyerhoff Symphony Hall.** Thurs: Zinman conducts two Copland works, and Freire plays Rakhmaninov's Second Piano Concerto. Next Thurs: more Copland and Rakhmaninov. July 25: Viennese night (410-783 8077)

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN
2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel
0830-0900 (Mon) FT East Europe Report – weekly indepth analysis from FTTV
2130-2200 (Tues) Media Europe – what's new in European media business
2130-2200 (Wed) FT Business Weekly - global business report with James Bellini
0830-0900 (Thurs) Media Europe
2130-2200 (Thurs) FT Eastern Europe Report
0830-0900 (Fri) FT Business Weekly

Sky News
0130-0200 (Mon), 2130-2200 (Thurs), 0530-0600 (Fri) FT Business Weekly

SATURDAY

CNN
0900-0930 World Business This Week - a joint FT/CNN production
1900-1930 World Business This Week

Super Channel
1930-2000 FT Eastern Europe Report

SUNDAY

CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1800-1830 FT Business Weekly

Sky News
1330-1400, 2030-2100 FT Business Weekly

FINANCIAL TIMES

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Tuesday July 14 1992

Poland's new government

A WELL-GOVERNED and prosperous Poland is essential to stability in the centre of Europe. The formation at the weekend of a new Polish government headed by Ms Hanna Suchocka is, therefore, to be warmly welcomed. Warsaw should now be able to resume negotiations with the International Monetary Fund, deal with foreign investors and resume the task of creating modern, democratic institutions.

Much depends on the degree to which the new prime minister can forge a coherent administration out of seven parties. Much depends as well on the kind of support offered by the president.

Mr Lech Walesa deserves much of the blame for the political turmoil of the past two years. He deliberately undermined the cohesion of the first non-communist government, led by Mr Tadeusz Mazowiecki. Once elected as president, by a far from enthusiastic electorate, he proceeded to quarrel with most of his erstwhile political friends and intrigued endlessly to enhance his power.

The struggle became acute after last October's general elections, which were held on the basis of a flawed electoral law. The result was a fragmented parliament and resurrection of the communists as the second largest party. Mr Walesa opposed the new government led by Mr Jan Olszewski, forging what his Polish critics complain is a *de facto* alliance with former members of the communist nomenklatura in the armed forces and secret police.

Two years of in-fighting between the president and parliament have undermined popular support for parliamentary democracy. But they have also further encouraged able Poles to eschew politics and public service and devote themselves to making money, instead.

Entrepreneurial energy

The latter is not a wholly adverse development. Poland's strength is its entrepreneurial energy. Economic reforms during the first few months of democracy, particularly the freeing of foreign trade, the abolition of many subsidies and Zloty convertibility, were sufficient to spark off rapid *de facto* privatisation of the economy. Like Italy, post-communist Poland has shown that its people are able to keep the economy going, even without an effective government.

Zloty devaluation has stimulated export growth, which is also helping to pull the economy out of a steep recession. Meanwhile, cuts in government spending have kept inflation within limits acceptable to the International Monetary Fund. With a new government, negotiations with the IMF on an aid and credit package worth about $2.5bn can resume.

Steady government

Things could, in short, have been worse. But Poland needs a period of steady government to restore the confidence of foreign investors, re-start the stalled mass privatisation programme, modernise the tax and banking systems, and create an effective and affordable social security network. Poland also needs a government able to deal with the sensitive question of the involvement of many public figures in the previous communist regime. Until this is done, the suspicion will remain that some are using their old links either to blackmail those now in power, enrich themselves, or both.

A witch hunt must be avoided. Many who worked for the former regime were neither scoundrels nor incompetent. Active and passive opposition to the old regime was more widespread in Poland than elsewhere. But those who served the old regime, especially in areas like internal security and the military should be identified. Those who are hostile to democracy cannot expect to occupy the most sensitive positions.

Poland's first post-communist governments ruled on the basis of a compromise that outlasted the collapse of communism. This delayed the vetting process that was needed. But coping with the past must not divert attention from the main priority: building a stable, prosperous and democratic future. With that overriding goal in mind, President Walesa and parliament should work together to support the new government. That government is after all formed of parties that have their origin in the Solidarity movement, which under Mr Walesa's leadership restored democracy to Poland and thus paved the way in eastern Europe.

Reviving the inner cities

"THE DECAY at the heart of Britain's cities is one of the biggest challenges faced by its government," according to Urban Trends, the new survey of inner-city life from the Policy Studies Institute. Since the first white paper on urban regeneration was published in 1977, billions of pounds have been spent on the UK's inner cities through a battery of government initiatives. Yet, the PSI survey concludes that these measures have had little impact on narrowing the gap between the most deprived boroughs and the rest.

Even more gloomily, this first independent assessment of 15 years of urban regeneration policy finds that the gap has widened in some respects. In most of the areas studied, the pupil/teacher ratio in primary schools has worsened over the period – against the national trend. People from deprived areas have done worse out of training than those from other areas. Homelessness in many of these areas has increased by more than average. These are depressing findings at a time when minor riots have become an almost routine feature of life in many British cities.

The report does, however, find some evidence of success in the efforts of urban development corporations, City Action Teams and Task Forces in improving the employment position of those who live in their areas. Considerable effort has gone into reclaiming derelict land and docklands. Transport and other economic infrastructure has been improved to tempt business back. But the effects have been patchy: while a third of the deprived areas surveyed saw their share of UK unemployment fall, the share increased in just over a third.

City Challenge

That patchiness could be exacerbated by City Challenge, the new bidding process used to allocate much of the government's funds for urban regeneration. On Thursday, Mr Michael Howard, the environment secretary, will announce the 20 urban priority areas which have won a share of £750m over the next five years in the second round of bidding. Eleven local authorities shared out more than £400m in last year's first round, so just over half of the 57 urban priority areas should have been successful in winning City Challenge money by the end of this week. The rest will have to wait until round three for their chance to fund what are likely to be equally deserving projects.

Ministers are said to be uneasy about the fate of local authorities which lose out in competitive bidding. The failure of Birmingham's bid in the first round of City Challenge threatened the future of its imaginative partnership with the private sector to regenerate the Heartlands area, for example. A new urban development corporation was hastily created which provided £50m of funding to keep the show on the road. More such *ad hoc* solutions may have to be conjured out of Mr Howard's hat if some inner city areas are not to be allowed to spiral on down after Thursday's winners are announced.

Funds unavailable

The PSI, inevitably, proposes more money, which is highly unlikely to be available given the pressing need to contain the growth in the public sector borrowing requirement. It would be foolish to expect a crock of gold.

More promising is the PSI's second recommendation: better management of whatever budget there is for inner-city regeneration. Money is already available through a plethora of different schemes, via various agencies and from several government departments. A clearer focus, preferably involving just one stop for local government, would allow targets to be better defined and progress to be regularly monitored. It would also reduce the scope for local authorities to indulge in "grantsmanship", in which skilful exploitation of government grants yields bigger dividends than efficient delivery of services.

There is no reason in theory why City Challenge cannot evolve to provide a one-stop funding agency, with clear objectives and tight monitoring, but that will involve the government throwing away the powerful sanction of withholding funds entirely. Without a more mature and trusting relationship between central and local government, Britain is unlikely to do more to regenerate its inner-cities in the next 15 years than it has done in the past 15.

David Marsh on the bruising battle over the site for the European central bank

No place for bank to call home

The tussle over the site of the European central bank (ECB) centres on the clash of competing national symbols. The bank, which is designed to one day run a single European currency, provides a glittering prize for financial centres jostling to bring money, jobs and prestige to their cities.

The ECB is a linchpin of the Maastricht treaty on political and economic union. The weighty national issues at stake ensure that politics rather than economics will determine where the bank eventually finds a home. But, until the wrangling over its venue is settled, highly contentious questions on the central bank's organisation and functioning are being left in abeyance. For some central bankers and economists worrying about how – and, indeed, whether – the ECB will eventually work, the debate over the bank is concentrating too much on public relations, and not enough on practicalities.

For the moment, however, the matter is firmly in the hands of the lobbyists. Sir Brian Jenkins, Lord Mayor of London, who heads Britain's bid to bring the bank to the City, leaps from his chair into a corner of his office. He fishes out a plastic-framed 20m Mark banknote printed during Germany's 1923 hyper-inflation, a gift from the Dresdner Bank. This is evidence, says Sir Brian, that the Germans – who want to bring the bank to Frankfurt or Bonn on the basis of their postwar record of monetary stability – have not always been anti-inflation champions.

Sir Brian, campaigning on the basis of London's size and prowess as a financial centre, is doing his best to counter a brochure from Frankfurt, recently presented to him by Mr Andreas von Schoeler, the city's mayor. Frankfurt's promotional leaflet, emphasising that Europe's mooted central bank will best prosper in a "culture" of price stability, points out that the UK has registered a 524 per cent inflation rate during the past 20 years. Germany, by contrast, was top of the EC league table with a mere 113 per cent.

Ms Gabrielle Eick, the Frankfurt official in charge of the city's campaign, is keeping up the momentum – even though a majority of EC leaders came out for Bonn by a 10 to two majority at their summit in Lisbon. "Bonn," she says scornfully, "is not a financial centre." Amsterdam, meanwhile, is also pressing ahead with its own bid. The city knows that its best chance will come from disagreement between Germany, Britain and France. "Our case is based on the fact that, as a financial centre, we're not a threat to Frankfurt, London or Paris," says Mr Jan Steinhauser, who is running the city's campaign.

An ECB decision is likely at the EC's heads of government summit in Edinburgh in December, which must choose a site for the bank's forerunner, the European Monetary Institute, planned to start in January 1994. Even cities with little chance of winning are not giving up. Edinburgh is sticking to its apparently hopeless quest for at least part of the bank's functions. In an unusual initiative, the Scottish capital is considering going into partnership with other marginal contenders, Barcelona and Lyon, to bid for the whole operation.

The ECB would carry out decisions made by a governing council of representatives from national central banks. It would function as a policy-making machine, a collector of banking statistics and as a large operator on financial markets.

Although policies would be centralised, they would probably be executed in a decentralised way. Existing national central banks would be maintained as operating arms, and some of the bank's central functions (such as banking supervision, computer systems and accounting) could also be split up.

For the central bank to succeed in its intention of controlling inflation, location of its head office in a prime banking centre would not be essential. "With good telecommunications," says a top official from the Bank for International Settlements, the central bankers' bank in Basle, "it could operate from the top of a mountain."

Backers of London and Frankfurt say, however, that the bank's policy-making touch would be surer if it were based in a city with acknowledged financial expertise. The bank could indeed represent a colossal prize. If all the EC's monetary reserves came under its sway, it would be responsible for foreign exchange holdings of $300bn.

The ECB could start operations by 1999, according to the Maastricht timetable. Plans for monetary union could be heavily disrupted by further problems in ratifying the treaty, as well as by member states' economic difficulties. But, for the moment, most EC leaders assume that the ECB will be a reality by the end of the century.

In the political horse-trading, which also involves the sites of about a dozen other EC institutions, Germany has the greatest weight – on account of its economic and political stature. Chancellor Helmut Kohl is arguing strongly for the bank to take root in Germany to help overcome popular German misgivings over giving up the D-Mark. In an accompanying move to win favour from France, Germany could agree to the new European currency being called the "Eurofranc", according to one idea circulating in the Bonn chancellery. Earlier this year, apparently prompted by Mr Felipe Gonzalez, the Spanish prime minister, Mr Kohl conceived the idea of proposing Bonn as an alternative to Frankfurt, on the grounds that the small city on the Rhine would be more acceptable to other countries' financial centres.

Although it is officially backing Barcelona, Spain is one of Mr Kohl's natural allies in the ECB skirmish. Mr Luis Angel Rojo, deputy governor of the Bank of Spain, said in May that he was "convinced" that Germany would succeed in attracting the central bank.

Britain's own ECB campaign has been intensified since Mr John Major awarded London his personal backing at a Downing Street meeting on May 13. Since then, the Corporation of London, the City's governing body, has been given Treasury help and the support of embassies abroad. However, Mr Jacques Delors, the European Commission president, warned earlier this month that Britain's efforts would almost certainly be in vain. This reflects both the UK's lack of full political commitment to Emu and also, Mr Delors says, the need to provide the Germans with "assurance" on the bank site as compensation for the D-Mark's demise.

For London's Sir Brian Jenkins, however, the game is far from over. Like an obstinate lawyer trying to overturn a solid majority on a recalcitrant jury, London's Lord Mayor is continuing a tour of European capitals to try to persuade governments that putting the bank in London is "best for Europe".

The Corporation of London still has £1.2m left of a £1.5m "war chest" set up to finance its ECB campaign, while Frankfurt has earmarked DM 700,000. Mr Hans Daniels, the mayor of Bonn, by contrast, has not spent a pfennig on any form of ECB campaign. He says he is "happy" with the idea that the bank may come to the Rhine – but plainly believes it is much more important that Bonn keeps as many ministries as possible when the German government moves formally to Berlin later in the 1990s. In line with Bonn's low-key posture, the city says the ECB could be built on the site of a recently-demolished Rhineside cement works.

The Bank of England, Bundesbank and Nederlandsche Bank have all been helping their respective financial centres in their political campaigning. Top Bundesbank figures have probably been less active publicly than their counterparts at the Bank of England. But the German central bank firmly backs the view that an ECB outside Germany would probably be opposed by the German public.

Public attention throughout Europe has concentrated on the sparring over the bank site. Other, highly intractable, problems are, however, bubbling beneath the surface. One focuses on the issue of the ECB's independence. The Bundesbank is dissatisfied with the lack of progress in most countries on making national central banks independent – one of the conditions of the Maastricht treaty.

Additionally, European central banks disagree on how the ECB would operate a common European monetary policy. This is one of a series of ECB-related issues on which European central banks are trying to co-ordinate ideas – with little success so far. Mr Hermann Remsperger, chief economist at the BHF-Bank in Frankfurt, who has made a study of ECB plans, criticises the lack of clarity on how the ECB would run monetary policy. Excessive debate on the site is an extreme case of "putting the cart before the horse", he says.

EC central bankers have set up three committees and five lower-level working parties to try to make joint suggestions in fields ranging from banking supervision, monetary policy and foreign exchange to statistics, payments systems and banknote printing. In monetary policy, the Bundesbank argues that minimum reserves on bank deposits – levied in West Germany since 1948 – should be introduced throughout the Community to provide harmonised monetary control.

The Bundesbank firmly opposes French and British suggestions for holding on to large parts of national monetary practices. The Banque de France and Bank of England argue that this is in line with subsidiarity – delegating decision-making to as local a level as possible. This argument is stoutly rejected by a top Bundesbank official, who says that the other countries do not want a fully-fledged European central bank, but simply a form of loose "currency board".

Some EC officials see the US Federal Reserve system as a "model" for the workings of the ECB. Based on the New York Fed's role as the market arm of the Washington-centred Fed network, Britain backs the view that London could provide the operating arm for a European central bank with its head office, say, in Bonn. As analysts such as Mr Remsperger point out, however, the analogy is faulty. Since European countries linked by Emu will all be operating separate fiscal policies, central banking money market operations – closely linked to governments' budgetary policies – will have to remain highly decentralised.

As the ECB lobbying intensifies in the coming months, such questions may come closer to the headlines. It would not be before time. Mr Anibal Cavaco Silva, the Portuguese prime minister, complained last week that wrangling over choosing the ECB site was damaging "the credibility of the whole Community". However, the damage would be still greater if the EC agreed on a place to build the bank – but found that there was no consensus on how it should carry out its business.

Joe Rogaly

More deadly at the Mail

The sudden appearance of Mr Paul Dacre as editor of the Daily Mail could be tiresome news for Mr John Major. Let me explain. The prime minister was, shall we say, assisted in his endeavours to win the election on April 9 by a solid and unanimous Tory press which heavily outnumbered the few opposition papers. All of it stuck to a script that I assume was written at Central Office. The Daily Mail did its bit, *con brio*. The Conservative papers rubbished Mr Neil Kinnock, and helped spread the idea that Labour would add huge amounts to everyone's personal taxation. Mr Major duly won.

Since then, as is proper in a democracy, those same newspapers have been all over the place. The prime minister still gets a good press, but no organ can be relied upon to support the government, certainly not on every issue. This is as it should be. I would not remark upon other publications at all, but for the fact that the official opposition has been dormant since April 10. The consequence is that the only significant alternatives to strategies made in Downing Street have been put forward from the Conservative benches – and in parts of the Tory press. The two wings of this internal opposition draw natural support from one another.

Many of the Conservative papers have become either uncomfortable doubters or hostile opponents of the prime minister's European and economic policies. The Maastricht treaty has few friends. The maintenance of Britain's position within the exchange rate mechanism is seen solely in terms of its upwards pressure on interest rates. Maastricht and the economy have become bound together. They are twin albatrosses slung around Mr Major's neck. The significance of Mr Dacre's appointment is that the Daily Mail, which my moles say was anyhow getting ready to move towards becoming an uncomfortable doubter, may now be roughly manoeuvred into a stance of open hostility.

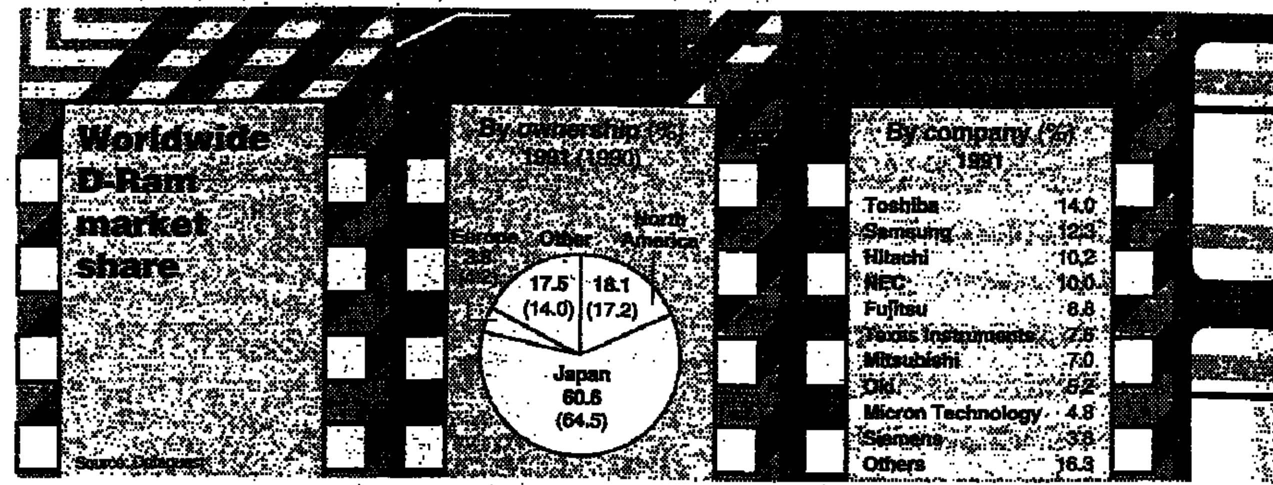
The evidence is to be found in the Evening Standard, a London newspaper, which Mr Dacre edited until last week. He moved it steadily rightwards. He featured Sir Alan Walters, scourge of the ERM and Maastricht, and the man whose presence by Mrs Margaret Thatcher's side was given as a reason for the resignation of Mr Nigel Lawson as chancellor. The treaty of which Mr Major is so proud was referred to in editorials as the "ex-Treaty of Maastricht"; just a fortnight ago the Standard devoted an entire editorial page to an attack on Britain's membership of the ERM. Do not mistake me. It is a free country. I merely note what happened. No criticism of Mr Dacre's editorship is implied.

The pulse of the Tory party beats through the Daily Mail, just as its heartbeat is in The Daily Telegraph

I cannot say whether the Daily Mail will be moved in the same direction now that Sir David English has stepped down as editor and the man from the Standard has moved in. Under Sir David, the paper was staunchly pro-European, and pro-Major, although latterly it may have been getting ready to wobble. It is not known how free the new editor will be; his predecessor, a life-long hands-on operator, will sit above him as editor-in-chief of the Associated Newspapers group. The likelihood is that *some* turn against Maastricht and the ERM can be expected; the interesting question is how much and how soon. This could be troublesome for the government. The pulse of the Conservative party beats through the Daily Mail, just as its heartbeat can be found in The Daily Telegraph.

The latter is also sounding an increasingly uncertain note. I have only once heard its proprietor, Mr Conrad Black, speak on European Community matters; my recollection is of a man who out-Thatchers Thatcher. His Sunday Telegraph has become a last redoubt for her admirers. Meanwhile The Times, still under the editorship of Mr Simon Jenkins, has been scornful of the Maastricht deal ("an invitation to an ever more interventionist bureaucracy"), while The Sun has conducted a running campaign to get Mr Norman Lamont to cut interest rates ("Do it, Norman"). In compensation, the Evening Standard may become less rightwing under its new editor, Mr Stewart Steven, who until this weekend ran a more or less loyalist Mail on Sunday. But a favourable London evening paper would be no antidote to an unfavourable Daily Mail.

You may say that none of this matters – that it is just musical chairs at the papers again. This could be so, but consider the government's position. It has bolted itself in to a policy of ratifying Maastricht (unless, blessedly, there is a French veto) and sticking out the recession for as long as it takes. It needs all the public support it can get, at a time when everyone who is in work knows of someone either out of it or in trouble finding a job. Mr Major and Mr Lamont have recently started to try to talk their own party, and the electorate as a whole, into an understanding of why interest rates cannot be summarily lowered, and why it is necessary to honour the Maastricht accord. They cannot rely on a docile press to assist them. They will have to depend on the force of their arguments. Wonderful.



Partners thank each other for the memory

Steven Butler and Louise Kehoe on the growing trend towards global alliances in the semiconductor industry

Semiconductor memory chips have long been the subject of bitter trade tensions between the US, Japan and Europe. Now these crucial computer components are at the centre of a series of international collaborations as some of the world's largest electronics companies seek to share the rising costs of development and manufacturing.

Two agreements announced yesterday are the latest examples of a growing trend towards international co-operation. First, International Business Machines of the US, Toshiba of Japan and Siemens of Germany have agreed jointly to develop 256-megabit dynamic random access memory (D-Ram) chips. Memory is the cornerstone of digital electronics. The reductions in cost and size together with increased reliability which can be achieved by compressing more memory on to a single chip are dramatic. As more of the added value in electronics comes from information stored in chips, larger memories contribute hugely to the development of a wide range of electronic products from "personal assistants" to mobile phones.

The second agreement yesterday, between Advanced Micro Devices of the US and Fujitsu of Japan will set up a joint venture to make "flash" memory devices, which are expected eventually to replace the disk drive in personal computers.

In spite of the fiercely independent and nationalistic nature of the semiconductor industry, manufacturers are being drawn into collaborative arrangements by the need to share both the escalating costs and the risks of remaining on the leading edge of semiconductor technology. "The costs now exceed what any single company can bear," said Mr Tsuyoshi Kawanishi, senior executive vice-president of Toshiba, a leading Japanese chip maker.

This is particularly evident in the $7bn global D-Ram market, where the cost of development and manufacturing is soaring while prices are in a steep decline. With research and development of the 256MB D-Rams expected to exceed $1bn, the world's chip makers are looking for partners.

The trend towards cross-border alliances was signalled last year when NEC, Japan's largest semiconductor maker, and AT&T, the American telecommunications group, agreed to work together on advanced technology needed to develop 64MB D-Ram chips. Today, 16MB chips are the most advanced high-capacity devices commercially available, but 64MB chips should be ready in about two years.

Hitachi of Japan and Texas Instruments of the US are also working together on future generations of D-Rams while IBM already has a D-Ram technology-sharing agreement with Siemens as well as a joint manufacturing alliance in France with Siemens. Toshiba similarly has links with Siemens, and in Japan with IBM.

Joining forces with Fujitsu would allow AMD to save costs and turn a competitor into a partner

While yesterday's agreement between IBM, Siemens and Toshiba currently focuses on research and development, joint manufacturing would be a "logical extension" of the alliance at some point in the future, Mr Jack Kuehler, president of IBM, acknowledges.

Notably absent from the D-Ram venture are any of the rising stars of the Korean semiconductor industry which has become a big supplier of D-Rams over the past four years. However, the partnership may be open to additional participants. They could come from among competitors such as the Japanese companies NEC, Hitachi and Fujitsu, and Samsung of Korea.

Although sharing the huge costs of developing 256MB D-Ram technology is one advantage of the agreement, Mr Kuehler stressed that reducing risk was also a primary motivation. "You have to make technology decisions before you are ready," he said. The alliance brings a larger pool of expertise to bear on research work.

The number of such alliances reflects the importance of D-Rams as a "technology driver" and the size of the market. More important than the design of the D-Ram chip is the development of technology used to manufacture it.

To achieve a density of 256m memory cells on a single chip will require shrinking the size of the circuit elements to just one quarter of a micron, about half the size of today's most advanced chips. This will require significant advances in materials and production equipment, tools and processes.

Once they are achieved, the technology will be applicable to all types of semiconductor devices.

What are the commercial prospects for megachips? With prices for 4MB parts at rock bottom and huge overcapacity because of the recession, no semiconductor manufacturer is making money out of D-Rams at present. The semiconductor industry, however, is notorious for its "boom to bust" commercial cycle. Manufacturers pour in research and development funds to develop a product which can be sold at a premium price. As the technology matures, prices fall. Manufacturers, therefore, have to cream off the profits in the early stages of a chip's life. The hope is that competition will reduce the number of players in the market, giving survivors a better chance of profitability.

Entry into the emerging market for flash memories, devices that are eventually expected to replace disk drives as the data storage medium of choice in portable personal computers and facsimile machines, is also costly and involves considerable risk. "In the future it will become increasingly difficult to succeed if a company is going to play by itself," said Mr Hikotaro Masunaga, managing director at Fujitsu, yesterday.

In many ways, the deal between Fujitsu and Advanced Micro Devices carries co-operation in the semiconductor industry furthest, and most clearly illustrates the reasons why companies are seeking partnerships. In very Japanese style, Fujitsu and AMD will purchase a small equity stake in each other. Mr W J Sanders, chairman of AMD, said he insisted on this because this would give Fujitsu, 20 times bigger than AMD, an interest in seeing AMD succeed.

At the same time, the two companies will jointly spend $700m on a 50-50 joint venture to manufacture flash memory devices. AMD has the technology for flash memory devices, but lacks the resources to build on its own a facility of the scale required. Fujitsu, on the other hand, lacks the technology for flash memory. But it does have the expertise in semiconductor manufacturing, the capital to invest, and access to the Japanese market.

By pooling resources, the two companies are able to contemplate a large-scale facility that will produce 20,000 eight-inch semiconductor wafers a month, thereby allowing for considerable economies of scale and setting a standard which the competition will have difficulty matching.

"You are going to see more and more alliances," Mr Kuehler predicted. "Alliances are the way of the future." Whether these will be international depends upon where the centres of particular technological expertise lie, he suggested. "The issues are skills, people and money, and ways to bring them together, whether that involves international agreements or not."

OBSERVER

No truck with Napoleon

■ For a bunch of people most prominent recently for their anarchic siege of their nation's infrastructure, it might seem uncharacteristic for the French truckers to be taking their grievances to court.

The Fédération Nationale des Transporteurs Routiers has asked the Conseil d'Etat, France's top legal authority, to overturn the tough new regulations that were at the heart of the dispute on the grounds that they came into effect after they had already expired.

The new law, under which drivers can lose their licences after getting six penalty points, came into effect on July 1. But, having been voted through parliament three years ago, the points system was supposed to come into effect by January 1.

Government officials claim that the imposition was postponed for six months because the paperwork was not ready, though some unkind souls have suggested that the delay might have been to avoid adding to the Socialists' unpopularity before the regional elections in March.

But the government is standing firm. The word from transport ministry lawyers is that the new law stands, whatever mistakes the state might have made in applying it. For that, the truckers can thank Napoleonic law.

On parade

■ General Sir Peter de la Billière, commander of the British forces during the Gulf war, is trading in his beret for a bowler to become a director of Robert Fleming.

Though best known for being on less than friendly terms with the Iraqis, it is his close relationships with other Middle Eastern states, especially Saudi Arabia, that is being sought by the merchant bank.

As a soldier, he acquired a close knowledge of the region over 30 years. In 1984, Margaret Thatcher, then prime minister, hand-picked him for a special mission to prepare for the Queen's visit to Jordan.

Robert Fleming is something of a haven for refugees from the forces and prides itself on being managed along army lines – with the stress on planning as much as flair.

It already manages billions of pounds of Arab money and won favour with Sir Peter by showing a stiff upper lip during the Gulf war; it kept its Bahrain office fully manned, while other western businessmen based in the Gulf headed homeward.

Sir Peter is not planning to take up any other business appointments. Though his main role at Fleming will be to advise on Middle Eastern politics, John Manser, Fleming's chief executive, is also looking for some practical advice. For example, how can Fleming executives negotiate the maze of Saudi airport customs procedures in less than the traditional two hours.

Eau no

■ It is illegal for South Koreans to buy bottled water. This little infringement on their liberty is creating a ticklish problem. For pollution is increasing in the river Han, the main source of drinking water for the residents of Seoul.

The rationale for the 20-year-old law is that bottled water poses a threat to social harmony; those who couldn't afford it would harbour ill-will against those that could.

But that was two decades ago and South Korea has become a much more affluent place since then. Are the authorities relenting? It doesn't appear so. Although their product may be sold to foreigners, two executives of a bottled water company have been arrested for illegally peddling the precious liquid to fellow countrymen. The police say they are flushing out other cases.

"Perhaps Ross Perot isn't the Texan billionaire we thought he was"

Bad chemistry

■ Ken Schofield and Mike Marshall, two of the better known personalities in Britain's chemical industry, have one thing in common. They both made a lot of money selling their chemical companies and ending up as boss of the company that bought them out. However, the similarities end there.

Yesterday Ellis & Everard turfed 48-year-old Marshall out of his chair and recalled a 64-year-old member of one of the founding families, Simon Everard, who had been doing the job for eight years until 1990.

Ellis & Everard is going through a rough patch but is not in as dicey a position as Hickson was when Schofield took the helm. Perhaps that's part of the problem, since Schofield saved Hickson and is now working his magic on MTM. Marshall has had less time to prove himself.

Nevertheless, it's a bit of a surprise that Marshall has been shown the door, especially since he owns five times as many shares as the rest of the board put together. It all seems a bit odd since it was Everard who anointed Marshall as his own successor.

Play it again

■ The Bank of Boston is doing its bit to encourage more voters to register their preferences in this year's presidential elections – and, incidentally, to boost new business at the same time. Yesterday, it introduced a certificate of deposit – imaginatively entitled the "Washington CD" – that will pay out a higher return to holders if election day voter turnout in the state exceeds 1988 levels.

The CD, which will carry a 5.25 per cent interest rate in December, will pay out 5.35 per cent if more than the 82 per cent of Massachusetts-registered voters who turned out at the last election make it to the polling booths on November 3.

Healthy sceptic

■ Absent-mindedly, a man steps off the pavement and is knocked down by a bus. As he lies there, clasping his injured leg, a would-be Samaritan jumps off the bus and comes to his assistance. "Don't worry," he says, "I can help you; I work in the health service." "That's all very well," the casualty replies, "but are you a purchaser or a provider?"

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Only one measure of incentives

From Mr Philip Crofton.

Sir, As one who has designed many top management incentive plans I was interested to read ("Shareholder group calls for changes to stock option plans", July 6) that the National Association of Pension Funds is studying alternatives, such as share price, to the earnings per share (eps) criterion used in many such schemes on the grounds that eps calculations are too easily subject to manipulation by top management.

It is vital that any measurement standard used in determining incentive awards is one that both management can influence by their efforts and whose achievement will jointly benefit management and owners. Earnings per share is the only criterion that meets these requirements. Share price certainly does not and the relationship between corporate performance and share price has long been established as a tenuous one.

As to the argument that it is too easy to manipulate eps calculations, while this may be true, it merely reinforces the need for boards, remuneration committees and shareholders to exercise judgment to ensure that this does not happen.

Philip Crofton,
chief executive,
Incrementum,
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Government as an employer showing signs of confusion

From Mr Chris Trinder.

Sir, In "Top public pay rises cut to 4 per cent" (July 10), the focus is on the immediate consequences of the rebuff of the Top Salaries Review Body recommendations, but the longer term significance of the government's decision may be of greater importance.

The scale of the reductions and the decision to stage over several years is not minor tinkering. So the "signal" being sent out might this week embrace the 120,000 police officers whose September 1 1992 pay rise under the Edmund-Davies formula is triggered by the figures on the increase in average earnings in May 1992 which are published on July 16 and are expected to show a rise of 6.5 per cent.

Also, early in 1993, the review bodies on teachers, nurses, doctors and armed forces will recommend pay rises for 1.5m other public servants for the financial year 1993-94 and because they use backward looking comparisons, average earnings figures of 6 per cent or more in 1992 will be a factor in what they decide. So cutbacks here are likely too.

But it was only last year that the government set up the Teachers' Pay Review Body, and, indeed, on the same day as they cut top pay, they announced an independent review of dental remuneration.

So while the government has sent out a clear signal on its responsibilities for "managing the economy", confusion is beginning to develop on how it intends in future to discharge its responsibilities as the single largest employer. If the present arrangements are an anachronism, they need replacing with something more appropriate.

Chris Trinder,
research director,
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Interest rate signal in Germany

From S J Green.

Sir, Your leader ("A beleaguered government", July 7) seemed to share the consensus view that German interest rates would be slow to come down.

Obviously, your leader writer had not read the reports of Volke Rühe's meeting with Conservative MPs in which he said that another 5,000 unemployed in the western part of Germany was not significant in the context of 4m unemployed in the eastern part. His figures on unemployment are almost certainly more accurate than the more official statistics. Taken together with the federal elections due in 1994, they provide a strong indication that German interest rates will be cut sooner rather than later and that the cuts when they come will be significant.

S J Green,
director,
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A lesson in protectionism

From Mr Mark Popiel.

Sir, If Ronald Dore ("Preaching pragmatism to free trade church", July 8) thinks British bureaucrats have come up with something new in the way of "a sensible and pragmatic form of protectionism", he is sadly mistaken. What does he think Japanese bureaucrats have been doing all these years? The result is the world's biggest GNP per capita among the large industrialised countries and virtually no unemployment.

Dore's proposals for a new concept on trade and investment are insufficient without the highly trained and dedicated bureaucrats to implement it. Therefore, what is needed is a transplant of the skilled Japanese practitioners of the art to Britain.

Mark Popiel,
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Japan

New ways needed to support and protect Kurds in northern Iraq

From Mr Michael Aaronson.

Sir, John Murray Brown reports the call by Bernard Kouchner, France's minister of humanitarian affairs, for a new cross-border programme of assistance to the Kurds of northern Iraq ("West faced with political minefield over Kurds", July 9). Save the Children, which is rebuilding schools and supporting agriculture in the region, believes the UN and western governments should urgently consider such innovative ideas, as it is clear that the current UN operation simply is not working.

The Kurds are suffering the effects of sanctions and an internal blockade imposed by the Iraqi government as they struggle to rebuild their lives. They need urgent help to reconstruct their communities in settlements which have been bombarded, razed and looted over the past decade. The decision on how to protect and support the Kurds in this crucial phase has been too long delayed.

Now the Memorandum of Understanding which governed UN-led humanitarian operations in Iraq has expired, and harassment of UN and aid agency staff is escalating. Mrs Mitterrand and Mr Kouchner narrowly escaped death in a car bomb attack on July 6 and there are daily hand grenade attacks on UN guards in the main Kurdish towns. The Iraqi government is blocking the efforts of UN agencies to improve water, health and primary education in the north.

Most crucially, no UN agency currently has responsibility for "contingency planning" against the possibility of a future large-scale evacuation or displacement of the Kurdish population. Emergency supplies in the area are being withdrawn to neighbouring countries, and UNHCT staff will shortly leave.

It is time for the international community to acknowledge the failure of its current approach and make strenuous efforts to find new ways of supporting and protecting the Kurds of northern Iraq.

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FINANCIAL TIMES
Tuesday July 14 1992

Choice of Senator Al Gore gives Democratic campaign some momentum

Clinton's popularity increases

By Jurek Martin in New York

GOVERNOR Bill Clinton took to the streets of New York yesterday before the opening of the Democratic party convention secure in the knowledge that he is no longer last in the polls.

A fistful of opinion surveys released in the previous 24 hours put him at least level with President George Bush and generally ahead of Mr Ross Perot, the prospective independent presidential candidate, whose support is beginning to show real signs of erosion.

This is important for Mr Clinton, as he awaits the Democrats' formal nomination on Wednesday night, because of the real fear a month ago that he would come to the convention in a poor third place, thus exciting the sort of internecine warfare for which his party is notorious.

The New York Times/CBS poll yesterday had Mr Bush in a narrow lead at 33 per cent, to Mr Clinton's 30 per cent and Mr Perot's 25 per cent. More significant than the bald numbers, this and other surveys report a increase in Mr Clinton's personal standing in the last month.

A Newsweek survey found that 38 per cent said they were now more likely to vote for him than a month ago, with 44 per cent saying that the choice of Senator Al Gore as running mate also made them more likely to support him. The Times poll found Mr Gore with a much more positive image than vice-president Dan Quayle.

The Clinton-Gore ticket, therefore, has a temporary, if not overwhelming, degree of momentum, which has in turn helped suppress internal dissent. Only Mr Jerry Brown, the former governor of California and Mr Clinton's erstwhile primary opponent, was withholding his endorsement yesterday.

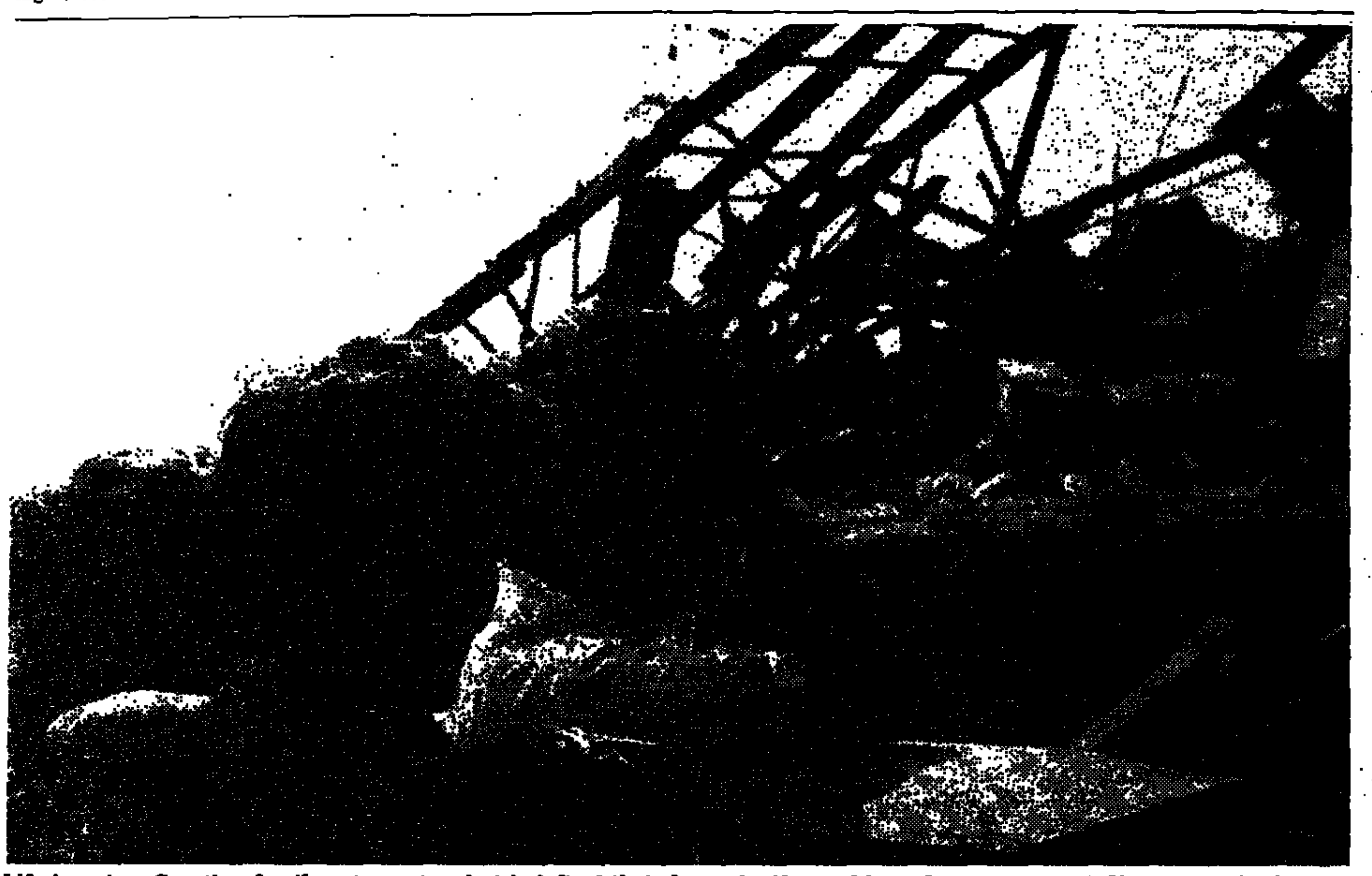
Mr Clinton began his day with morning jog, followed separately by Mr Gore, and went on to an open air "town meeting", in which he answered questions from all and sundry.

It looks as if Mr Clinton will have the week's headlines pretty much to himself. Mr Bush was fishing in Maine yesterday and his appearance at an all-star baseball game in California tonight is hardly a distraction.

Mr Perot is struggling to combat the adverse reaction to what were widely considered patronising remarks over the weekend to the meeting of the National Association for the Advancement of Coloured Peoples.

His press secretary has been forced to apologise for "his unfortunate choice of words," in addressing his black audience as "you people".

Unity and hope make a tentative appearance, Page 8



Life in ruins: Croatian family returns to what is left of their home in Slovanski Brod after heavy shelling from the Serbs

Serbs pledge not to cede 'one inch'

By Laura Silber in Belgrade and agencies

SERB FORCES yesterday stepped up their offensive throughout Bosnia following a pledge by Mr Radoman Bozovic, the Serbian prime minister, never to cede "one inch of territory" inhabited by Serbs.

At the same time, General Lewis MacKenzie, the United Nations commander in Sarajevo, warned of the perils faced by international relief flights when flying into the besieged Bosnian capital, after three French aircraft were hit last week on their final approach to the airport. Gen Mackenzie told journalists he had informed western governments of the dangers of the aid missions.

Fourteen out of 20 scheduled flights had arrived in Sarajevo by yesterday afternoon.

Italian warships taking part in an international naval operation to enforce UN sanctions against Serbia have meanwhile begun interrogating freighters entering the Adriatic.

Admiral Achille Zanoni, commander of Italian naval forces in the Adriatic, told reporters of the action as US and European vessels approached the region to beef up the patrol aimed at tightening sanctions against Serbia.

Despite the international pressure, Mr Radoman Bozovic, the Serbian prime minister, said Serbia would continue to support Bosnia's Serbs. "Who has the right to call it aggression when citizens defend their hearths, their homes and their villages?" Mr Bozovic was quoted as saying by Politika, the Serbian daily.

"Serbs in Bosnia would never be forgotten" he added, vowing that "Serbia and the Serbian people could not by bought by blackmail or severe economic sanctions." The UN on May 31 imposed sanctions, including an oil embargo, on Serbia for its role in the fighting in Bosnia.

Serb forces continued to fight the mainly Moslem and Croat Bosnian forces yesterday to try to link Serb-controlled territories in Bosnia with Serbia.

Belgrade radio said the Serbian army was within three days of capturing Odzak, in northern Bosnia. Meanwhile Serb forces were advancing in Hercegovina, in the west of the republic, the radio said.

● Croatia, whose forces have been carrying out offensives to capture territory in the west and north of Bosnia-Hercegovina, yesterday asked the Security Council to call an emergency meeting to authorise military action in order to stop atrocities in the republic.

PM's pledge spurs Serbs, Page 2

Blacks stage peaceful Pretoria protest

By Michael Holman in Pretoria

TEN THOUSAND black South Africans yesterday marched peacefully on government buildings in Pretoria as business leaders and trade union officials continued efforts to defuse the country's political crisis.

In what turned out to be a muted step in the "mass action" campaign intended to force President F.W. de Klerk to give way to majority rule, several thousand demonstrators gathered in the grounds of Union Buildings, the government's administrative headquarters.

Mr Sam Shilowa, assistant secretary-general of the Congress of South African Trade Unions (Cosatu), handed over a memorandum on political demands and working conditions.

But the modest turnout and the low-key mood of the crowd will have disappointed the African National Congress and Cosatu, the co-organisers. Their main efforts, however, are being directed towards a general strike, planned to begin on August 3.

Representatives of the business community were last night continuing talks with Cosatu officials in an effort to revive the stalled negotiating process.

The South African Co-ordinating Committee on Labour Affairs, made up of 10 leading employers, is understood to have suggested that business and labour could jointly convene "assemblies for peace, economic reconstruction and progress" on August 3.

Cosatu would suspend plans for a week of disruption and civil disobedience. In return, it would expect the government to implement a package of measures to curb political violence, and agree to hold elections for a constituent assembly by the end of the year.

● Mr Jay Naidoo, Cosatu secretary-general, said the co-ordinating committee's meetings were an attempt "to break the political log-jam and get movement towards a political democracy".

Government thinking may be disclosed tomorrow when Mr Pik Botha, the foreign minister, addresses the UN security council in New York.

Little sign of a sanctions dividend, Page 7

EC's high interest rates attacked

Continued from Page 1

Germany's litany of budgetary problems related to unification.

"No one put us [Germans] in the dock on interest rates," he said after the meeting.

There was, he said, "a perspective" of rates coming down in Germany and elsewhere in Europe, but perhaps too slowly to spur a job-creating economic recovery.

The UK chancellor underlined the long-haul approach to lowering interest rates. He summed up the mood at the meeting by saying "the right conditions for lowering interest rates ... will be achieved by reducing budget deficits and inflation".

The new Italian government was praised for the measures it has taken to contain its 1992 budget deficit.

Seeking to scotch rumours that a German rate rise might be accompanied by a realignment of currencies within the European Monetary System, Mr Piero Barucci, Italy's new finance minister, said there was no likelihood of devaluing the lira.

Such a step "would go counter to all the measures taken [by Italy] in the last few days", he said.

The Dutch government, whose "convergence" plan was discussed by ministers, was told that "fiscal consolidation is the key requirement" for bringing its debt and public spending down to the levels laid in the Maastricht treaty for monetary union.

Rabin

Continued from Page 1

Arab parties. The coalition won approval in the Knesset with a comfortable majority of 67-53.

Mr Rabin's message was clearly more conciliatory than that of Mr Shamir – who denounced the new government as radical and extremist.

Mr Rabin urged Palestinians to accept his offer of an interim period of self rule in the occupied territories, followed by talks on a final settlement in which Labour is prepared to give up territory.

THE LEX COLUMN

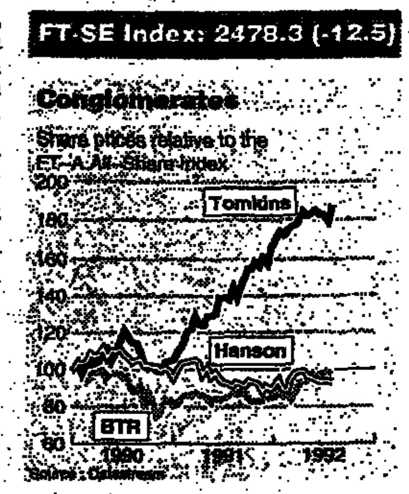
Sterling cornered

For those of a lurid turn of mind, yesterday's further 2-pfennig slide in sterling points to a shoot-out between the UK government and the foreign exchange market. Messrs Major and Lamont continue to assert, in as many ways as they know how, that their commitment to the ERM is absolute. The market, half expecting a rise in German rates this week and only half believing that the UK has the stomach to follow suit, continues to challenge that commitment.

In fact, the odds are still against the issue coming to a head. If the Bundesbank settles for technical manoeuvres in the money markets, sterling may scrape by. After all, some form of German tightening is already in the price, and sterling is still 7 pfennigs clear of its absolute floor. Then again, in the unlikely event of German rates being formally raised by half a point or so, the UK would surely be obliged to follow. For in that case, UK short rates would be below Germany's. As Mr Lamont pointed out in a different context last Friday, that is a situation which obtained for just 16 weeks throughout the 1980s.

But if the market thinks Messrs Major and Lamont would duck the necessity, it is surely wrong. By going as far as they have in their public pronouncements, both men have deliberately destroyed that option, if it ever existed. A rise in UK rates would do material damage to the real economy, particularly in respect of consumer confidence. But it would be beneficial in one single respect. Since the UK joined the ERM it has cut rates nine times. It has never raised them. For the markets, this creates an asymmetrical view of sterling wholly at odds with the other member currencies, for whom adjusting rates either way is a matter of pragmatic routine. It might almost be said that the UK has to raise rates to become a full member of the club and to stop being picked on. The timing would be fairly appalling, but so are the alternatives.

FT-SE Index: 2478.3 (-12.5)



Cathay Pacific

Two clouds have been hanging over the Cathay Pacific share price of late. One is the global recession in air travel, from which even the Asian growth economies have not been wholly insulated. The other has been Hongkong Bank's evident eagerness to sell its remaining 10 per cent stake. Yesterday's news that Chinese interests are to pay HK$3.4bn (£215m) for the holding removes at least part of the uncertainty and, as the 6 per cent jump in Cathay's price implies, may have a more lasting effect. With more than 22 per cent of the airline now controlled by Chinese interests – including, as from yesterday, a subsidiary of the Civil Aviation Administration of China – Cathay's bargaining position in negotiations over flights in and out of the People's Republic ought now to be improved.

The deal, of course, is in line with the Hongkong Bank's avowed intent to shed peripheral assets. Conveniently enough, the stake was in the balance sheet at virtually nothing, so the bank will be able to book a handy exceptional profit to offset provisions for its exposure to Olympia & York – likely to be of the order of US$300m-US$400m – and to Mr John Elliott. The intriguing question is where the clearing-up operation leads to next. One widely touted option is the bank's stake in container terminal group HIT, whose valuation may be boosted by hype over the construction of Hong Kong's Terminal 9.

Tomkins

Though Tomkins's full year figures are eminently sound, they are scarcely as glamorous as the recent performance of its share price might suggest. The 5 per cent rise in earnings per share means that for two years in a row the performance has been static in real terms. The company talks of operational gearing in an upturn. But the consensus forecast – normally well-informed in Tomkins's case – is for earnings growth this year of barely 10 per cent. In other words, the bounce is another year away again.

But then, a forward multiple of 15 or so is not hugely demanding. Indeed, as Tomkins freely admits, it leads to a separate problem, in that the clapped-out companies which it might otherwise want to bid for are on the same multiple or higher. In other words, the market remains touchingly convinced that the bounce, when it comes, will benefit badly managed companies more than it will Tomkins. Perhaps the interim results season will throw up one or two victims, as BTR found a year ago with Hawker Siddeley. But if Tomkins could weather the past year with no real benefits from acquisitions at all, it doubtless reasons that time is on its side.

Regalian

Anyone seeking fresh evidence of the desperate state of the London property market need look no further than Regalian's £38m disposal of Red Lion Court. It is a forced sale, to be sure, but then there is scarcely a deal these days which does not fall into that category. What is striking even in today's depressed markets is the meagre residual value placed on the site.

The total sale proceeds compare miserably with the £35m which the company itself reckons it might have been able to raise on the back of a fully amortised 23-year mortgage. In this way, the interest and capital on the mortgage would have been met by the remaining rents from the long lease signed by Lloyds Bank at a princely £38 per square foot in distinctly happier times. The implication is that the German investment company purchasing Red Lion Court is assuming a residual value when the lease expires of just £3m. Even if the building remains over-rented for the rest of the term, and even if the City is still awash with unlet space in a quarter of a century, that seems like a reasonable bargain. All the more so given that the 8 per cent which a borrower might pay for a D-Mark loan of the same maturity compares with a yield of 11.2 per cent at yesterday's price.

While the cash infusion should substantially reduce Regalian's borrowings, it would take a brave investor to bet on the shares even at 7.5p. There is certainly room to doubt whether the company deserves to be put in the penny stocks along with the likes of Rosehaugh and Speyhawk. From the market's point of view, though, Regalian is just another company trying to prove that its assets exceed its liabilities.

World Weather

		°C	°F			°C	°F			°C	°F
Ajaccio	S	25	77	Boulogne	C	17	63	Frankfurt	F	20	68
Algiers	S	29	84	Brussels	R	19	66	Geneva	S	21	70
Amsterdam	Dr	15	59	Budapest	T	18	64	Gibraltar	S	25	77
Athens	S	28	82	Buenos Aires	F	22	71	Glasgow	F	15	59
Bahrain	S	35	95	Cairo	S	32	90	Helsinki	S	27	81
Bangkok	F	36	97	Cape Town		–	–	Hong Kong		–	–
Barcelona	F	23	73	Caracas		–	–	Innsbruck	S	19	66
Beijing	S	30	86	Casablanca	S	27	81	Inverness	C	14	57
Beirut	S	27	81	Chicago †	C	17	63	Islamabad	C	31	88
Belfast	F	15	59	Cologne	C	20	68	Istanbul	S	26	79
Belgrade	F	24	75	Copenhagen	S	22	72	Jakarta	F	33	91
Berlin	F	22	72	Corfu	F	27	81	Johannesburg		–	–
Biarritz	F	22	72	Dallas †	S	24	75	Lisbon	S	32	90
Bombay		–	–	Dublin	C	17	63	London	C	19	66
Bordeaux	C	23	73	Dubrovnik		–	–	Los Angeles †	C	21	70
				Edinburgh	F	16	61	Luxembourg	C	18	64
				Faro	S	32	90	Madeira	S	22	72
				Florence	S	27	81	Madrid	S	32	90

		°C	°F			°C	°F			°C	°F
Majorca	F	27	81	Oporto	S	25	77	Tenerife	S	26	79
Malaga	S	29	84	Oslo	F	21	70	Tokyo	Dr	21	70
Malta	S	27	81	Paris	F	22	72	Toronto †	C	16	61
Manila	R	30	86	Prague	F	20	68	Tunis	S	30	86
Melbourne	S	12	54	Reykjavik	S	14	57	Valencia	S	28	82
Mexico City	C	26	75	Rhodes	S	27	81	Venice	S	25	77
Miami †	F	27	81	Rio d'Janeiro		–	–	Vienna	F	21	70
Milan	S	26	79	Rome	S	26	79	Warsaw	F	24	75
Montreal †	C	16	61	Salzburg	C	18	64	Washington †	C	27	81
Moscow	S	28	82	S Francisco †	C	17	63	Zurich	S	21	70
Munich	S	20	68	Seoul	C	27	81				
Nairobi	F	21	70	Singapore	R	26	79				
Naples	S	32	90	Stockholm	F	21	70				
Nassau	F	33	91	Strasbourg	F	23	73				
New Delhi		–	–	Sydney	S	17	63				
New York †	C	28	82	Taipei	F	35	95				
Nice	S	27	81	Tangier	S	34	93				
Nicosia	S	29	84	Tel Aviv	S	31	88				

Temperatures at midday yesterday
† Noon GMT temperatures
C - Cloudy Dr - Drizzle
F - Fair Fg - Fog H - Hail
R - Rain S - Sunny
Sl - Sleet Sn - Snow
T - Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
Tuesday July 14 1992

INSIDE

DAF in talks for Fl 200m loan

DAF, the loss-making Dutch truckmaker in which British Aerospace has a 16 per cent stake, is in final negotiations to secure loans of Fl 200m ($110m) to strengthen its balance sheet. The company, which incurred a net deficit last year of Fl 394.5m, compared with a loss of Fl 228m a year earlier, said it was also looking at "various other opportunities" for additional financing. Page 20

Tomkins rises 18% to £132m

Tomkins, the UK industrial conglomerate with interests from bathroom fittings and reinforced shoes to hand-guns and mechanical valves, yesterday reported an 18 per cent rise in profits after the increased contribution from Philips Industries of the US which it bought in 1990. Pre-tax profits in the six months to May 2 rose from £112.09m to £132.11m ($254.2m). Page 24; Lex, Page 18

Food for thought

A breakthrough in the breeding of Africa's most widely grown staple food, cassava, has led to the development of a high-yielding variety which could survive in drought conditions and be the continent's most important hope for overcoming famine. Page 26

All eyes on the Bundesbank

The weakness of the dollar and concern about the German economy subdued European bourses last week. Some analysts expect activity in Europe to remain dull ahead of Thursday's meeting of the Bundesbank central council at which it will review its monetary target for 1992. Back Page

Italian food sale

SME, the Italian state-controlled foods and retailing group, is one of Italy's most appealing privatisation candidates. However, Mr Mario Artali, chief executive, is opposed to a sale. But if SME is to be privatised, he says, it should be in one piece. Page 20

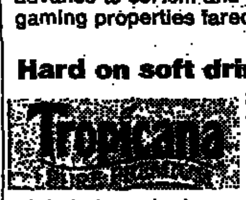
Home-grown demand for gilts

Domestic institutions rather than overseas investors are now supporting the UK government's borrowing programme. Gilts sales to domestic investors totalled £7.6bn ($14.6bn) in April and May, against just £836m to overseas investors. Page 23

Gambling pays off

Hilton Hotels, the California-based casinos and lodging group, reported second quarter profits of $32.4m up from $23.6m in the same period a year earlier. Gaming reported a 49 per cent advance to $37.5m and all four of its Nevada gaming properties fared well. Page 21

Hard on soft drinks



Seagram, one of the world's biggest producers of hard liquor, has embarked on an ambitious drive to become a global player in the orange juice business. The Canadian company – best known for its Glenlivet, Chivas Regal and Martell labels – got into fruit juice in a big way in 1988 with the $1.2bn acquisition of Tropicana, a leading US producer of orange juice. Page 22

Drop of wine producer

Recession and reduced margins were blamed by Matthew Clark, the UK wine and sherry producer and drinks distributor, for a 19 per cent drop from £5.62m to £4.55m ($8.8m) in annual pre-tax profits. Page 25

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)

Falls

BMW	571	−	8.5
Deutsche Bank	697	−	8
Douglas	542	−	8.5
Lahmeyer	730	−	30
Porsche	551	−	14.5
Rheinelektra	1015	−	26

NEW YORK ($)

Rises

Alcoa	73½	+	½
Cent.Medicorp	19	+	3¼
IBM	97⅞	+	¼

Falls

Chase Manhattan	27⅞	−	1¼
First Chicago	35⅞	−	⅝
Spartan Motors	13⅝	−	6⅞

TOKYO (Yen)

Rises

Ikeda Bussan	285	+	24
Nippon Electric	620	+	50
Nippon Metal	425	+	36
Sata Cons	854	+	62
Shimura Kako	555	+	40

Falls

Lac	20	−	2

Paris closed.

LONDON (Pence)

Rises

AcornComputer	31	+	2½
Aegis	43	+	4
Allied Leisure	36	+	5
Brasway	15	+	2
Costain	33	+	2½
Fisons	205	+	16
St'd Platforms	95	+	8
TSB	148	+	6
Tomkins	470	+	11

Falls

Clarke Foods	103	−	15
Comac	32	−	3
Dale Elect	76	−	4
Ellis Everard	172	−	13
Glaxo	690	−	20
HTV	49	−	8
Hardys H'sons	300	−	20
ICI	1143	−	20
Nobo	93	−	5
P & O Dfd	388	−	10
Pearson	351	−	12
Pelon	107	−	9
Slough Est	125	−	15
Smith (WH) A	406	−	12
Tay Homes	177	−	7

Chinese buy 10% stake in Cathay

By Simon Holberton in Hong Kong

TWO CHINESE companies yesterday said they would buy a 10 per cent holding in Cathay Pacific from Hongkong and Shanghai Bank for HK$3.39bn (US$438m).

China National Aviation Corporation (CNAC), a subsidiary of the Civil Aviation Administration of China (CAAC), and China Travel Service (Holdings) Hong Kong (CTS), will each take a 5 per cent share in the airline and a seat on the company's board.

The sale ends Hongkong Bank's direct financial involvement in Cathay. It was an early supporter of the airline, which was founded soon after the Second World War. By 1963, the bank owned 30 per cent of Cathay but has since reduced its interest.

The Chinese holding, together with that owned by Beijing-controlled CITIC Pacific, takes China's disclosed interest in Cathay to 22.5 per cent.

In Hong Kong, which reverts to Chinese sovereignty in 1997, the purchase was seen as a further safeguard of Cathay's business interests. It may also help mitigate the tension between Cathay and China's civil aviation administration.

Mr Peter Sutch, Cathay's chairman, said the company was pleased to have CNAC and CTS as shareholders. "Their involvement... reflects the increasing co-operation between airlines in Hong Kong and aviation and tourism interests in the People's Republic of China."

The bank said it made an exceptional profit of HK$3.16bn on the transaction. It sold its 143.4m shares in Cathay for HK$11.80 – HK10 cents lower than Friday's closing price.

Mr William Purves, Hongkong and Shanghai Bank chairman, said it had been the bank's intention to retain a long-term investment in Cathay, but aviation was not one of the bank's core activities.

Cathay approached the bank about four months ago on behalf of the two companies. The bank was initially reluctant to sell, but, according to one executive close to the deal, assessed that an increase of the Chinese stake in Cathay was in the airline's best interest.

The bank's share price rose strongly on the announcement, closing HK$3 higher at HK$52. Cathay's share price ended HK70 cents higher at HK$12.60.

Lex, Page 16

Analysts are split over Forte's direction. **Michael Skapinker** analyses the on-and-off love affair

Reservations over future of UK hotel group

Has the City of London fallen out of love with Forte? Until recently, whatever the economic circumstances and the hotel and restaurant group's performance, investors listened carefully to Forte's plans and held on to its shares.

When, last April, the group announced 1991 pre-tax profits down 62 per cent to £73m ($140m), along with a maintained but uncovered dividend, the shares rose slightly. In the words of one institutional investor: "No one ever got fired for buying Forte."

In the last few months, however, Forte's shares have dropped sharply relative to the market. After out-performing the FT-SE 100 index over the first four months of this year, Forte's relative share price has since fallen more than 25 per cent.

It has shown a similar decline against the recession-hit leisure sector, which it had consistently outperformed over several years. Since the beginning of this month alone, the shares have fallen 29p to 170p, representing 15 per cent of their value. "The market seems to have lost its patience," says one analyst.

Some doubted Forte's wisdom when it said in May that it had decided to sell its contract catering business to the Compass Group of the UK and ARA Services of the US. When the proposed sale fell through earlier this month, another question was asked.

Did the failure of the transaction indicate that Mr Rocco Forte, the group's 47-year-old chief executive, could not act without the say-so of his father, Lord Forte, the company's octogenarian founder and current chairman? Mr Forte takes this suggestion calmly, dismissing it as "a little bit of mischievous nonsense".

He can probably afford to do so. Discussion of the market's disenchantment with Forte should not be overdone. The shares have done no more than keep pace with analysts' revisions of Forte's prospects.

A few months ago the City of London had been expecting pre-tax profits of £140m for the current year. The group is now expected to make pre-tax profits of £90m. With 1992 earnings per share expected to be 7p, the company's prospective price-earnings ratio is still an expensive 24.3.

"It's still a blue-eyed stock," says Mr Peter Joseph of Smith New Court.

Several large institutional shareholders appear to be sticking with Forte and are unperturbed by the collapse of the contract catering sale. "The fact that they can afford to walk away from the deal show that they were not going to be messed around," says a manager with one long-time holder of the shares.

Forte says it still wants to sell its contract catering arm, allowing it to concentrate on running hotels and restaurants and expanding on the Continent.

Some followers of the company believe this is a mistake. The contract catering business has withstood the recession better than any of Forte's other activities. While hotel trading profits fell 53 per cent to £75m last year and those from restaurants dropped 15 per cent to £63m, contract catering profits rose 18 per cent to £47m.

Mr Forte argues that this is insufficient reason to hold on to the business. "The idea that it has served us well in the recession is true, but it's such a small proportion of our total results that it doesn't have that big an impact," he says.

Contract catering, he argues, does not fit in well with the rest of Forte's activities. "It has a very different customer base. In contract catering, we're actually not dealing directly with the consumers. We're dealing with a client. To a great degree we're in the hands of the client in terms of what we can deliver."

Mr Forte accepts that the failure of the deal is not good for the morale of the managers, staff and customers of the business. On the other hand, a sale to Compass and ARA would have meant splitting up the business between them to comply with UK monopoly requirements. Managers had objected to that.

Mr Forte will now look for buyers who will keep the division together. He would like to find a buyer for Gardner Merchant, which provides canteen meals. He has different plans for Forte Airport Services, which provides in-flight catering for airlines. When market conditions improve, he would like to see this business floated, with Forte retaining a stake.

The sale of Gardner Merchant would allow Forte to cut costs substantially. Mr Forte says the group last year reduced fixed and variable costs by £63m, but that the tenacity of the UK recession has encouraged it to go further. "We're looking at costs from head office down to unit level. We're looking at whether there's a different way to run things. In our previous approach we maintained our existing structure."

He will not give details, but it is clear that the group is looking at the usefulness of having headquarters for each of its businesses. Reducing the role of divisional headquarters would inevitably focus greater attention on Forte's group leadership and on Mr Forte himself.

It is not true, he says, as some newspaper reports have suggested, that the contract catering deal fell through because of his indecisiveness. Compass, he says, was not the ideal buyer because its existing UK catering interests meant the business would have had to be split up. But when Compass and ARA offered £560m, Forte felt duty bound to consider it. When Compass and ARA dropped their offer price, Forte felt it had to walk away.

Company insiders say the decision to end negotiations was taken by the entire board. Lord Forte was not at the meeting because he had broken his ankle, and although Mr Rocco Forte asks his father for advice, insiders say Lord Forte is too old to play a dominant role.

Because Mr Forte is the quietly-spoken son of a charismatic founder, the company realises the whispering about his competence will probably continue. There is little he can do except pursue his strategy of looking for expansion opportunities on the Continent.

"Poor old Rocco is trapped," says one analyst. "If things go well, it's because of the company his father built up. If they go badly, it's because Rocco cocked it up."

US banks show signs of recovery

By Alan Friedman in New York

SIGNS of recovery among big US commercial banks emerged yesterday as improved second-quarter earnings were unveiled by JP Morgan, Chase Manhattan and First Chicago.

Mr Jim McDermott, president of New York bank analysts Keefe Bruyette, said yesterday's figures "set the tone for what is likely to be the trend among major US banks, a range from firm to strong recovery".

JP Morgan, the blue-chip New York institution that has consistently bucked the sector's trend, led the way yesterday with a 67 per cent rise in second-quarter net profits, to $385m. Earnings per share increased to $1.94 for the three-month period, from $1.17 a year ago.

While Morgan achieved strong revenue growth in each of its main businesses, the second-quarter net profit figure was boosted by a $124m pre-tax gain from the sale of Mexican government securities acquired during refinancings in 1988 and 1989.

Although the after-tax impact of the gain was not disclosed, analysts estimated the bank's second-quarter profit would have improved by less than a third had the gain been stripped out.

Chase Manhattan, the New York commercial banking group, produced a 15.1 per cent improvement in its second-quarter earnings, to $153m. Earnings per share were 83 cents, against 80 cents last year.

First Chicago, also in a recovery phase, announced a 19 per cent increase in second-quarter net income, to $68.2m. Earnings per share at the bank were 79 cents against 73 cents a year ago.

Highlights from the JP Morgan results included a very small $25m bad debt provision, up from $10m a year ago. Non-interest revenues, including the $124m special gain, jumped to $844m from $557m a year ago.

Net interest revenue rose 23 per cent to $434m. Operating expenses were $745m, up from $585m because of higher bonuses and increased hiring. Morgan's corporate finance revenue was 21 per cent higher at $110m.

Chase Manhattan said its net interest revenue was $878m, up from $834m a year ago. The bank's bad debt provisions were $295m, against $265m in the second quarter of 1991. First Chicago's bad debt provisions were $105m, up by 17 per cent year-on-year. Net interest income was 9 per cent higher at $300.9m.

Isosceles reaches agreement in principle on refinancing

By Nikki Tait in New York and John Thornhill in London

ISOSCELES, the highly-indebted owner of the Gateway supermarket chain, has reached agreement in principle with its creditors for a refinancing. The proposals are being scrutinised by the credit committees of the 50 banks involved in the negotiations and a final agreement may be reached next week.

Yesterday, however, Great Atlantic and Pacific Tea Company, one of the largest US supermarket operators and 53 per cent-owned by Germany's Tengelmann group, joined the growing list of investment institutions which have written off their equity holding in the company.

A&P owns 7.2 per cent of Isosceles and is taking an $89.2m provision to cover the potential loss.

Isosceles has long stressed that it is not looking for an injection of new capital but requires a relaxation of its loan covenants to enable it to invest in its new format Food Giant, Somerfield and Solo stores.

"Things have at last started to move, thank God, and that is a great help," said one party involved in the talks.

The company is technically in breach of its banking covenants and has been rolling up the interest on its £300m ($577m) of mezzanine debt but it has continued to service its £1.1bn of senior debt.

A&P had previously valued its stake at cost – which, according to its recent annual report, stood at $148m at end-February exchange rates.

Tax breaks mean the after-tax provision to cover a write-off is less than the cost of the stake, but A&P is now attaching no value to Isosceles equity.

The US company's move is the latest in series of write-downs by Isosceles shareholders. Last week 3i, the venture capital group, wrote off its £45m equity holding. In May, Mercury Asset Management also cut the value of its stake by an undisclosed amount. Murray Johnstone, which has a 1.3 per cent stake, wrote down its holding by 44 per cent five months ago and will review its position this month.

However, Wasserstein Perella, the US investment banking business which is Isosceles' largest shareholder with a 40 per cent stake, still carries the holding at cost. Wasserstein said yesterday it would be unlikely to adjust the valuation until calendar year-end.

A&P results, Page 21

BTR acquires Pirelli units for $210m

By Andrew Bolger in London and Robert Graham in Rome

BTR, the UK-based industrial conglomerate, yesterday announced a £110m ($210m) acquisition in Europe and a disposal worth $145.4m in the US.

The £110m deal covers the purchase of automotive and industrial rubber products businesses in Germany, Spain and the UK from Pirelli of Italy.

BTR will pay £60m in cash and assume £50m of borrowings for the businesses, which employ 4,600 people. Total sales last year were £285m, of which more than 80 per cent was accounted for by the German companies.

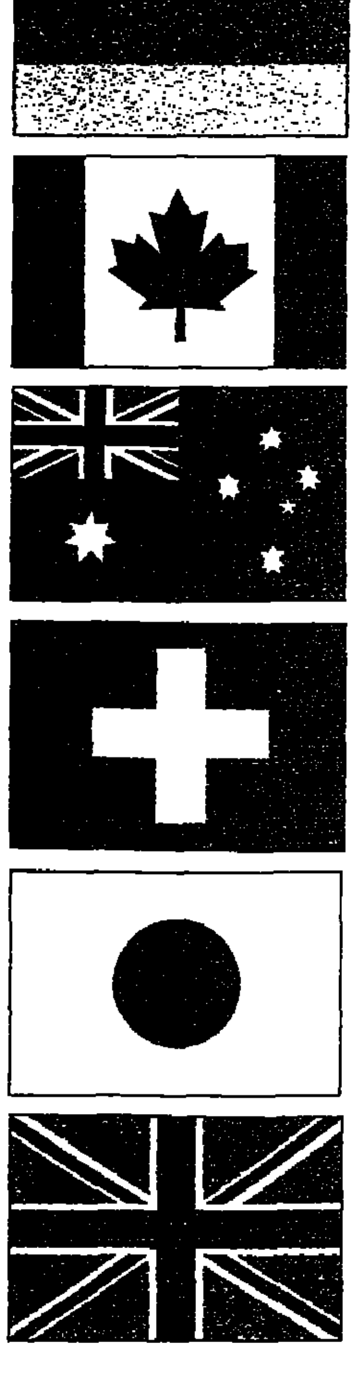
The businesses include German-based Metzeler Automotive Profiles and Metzeler Gimetall, Pendelastica and Perfiles del Automovil in Spain and Metzeler (UK), based in Cambridgeshire. Last year they made a pre-tax loss of £2.2m.

Mr Alan Jackson, BTR's chief executive, said: "The acquisition accords with BTR's objective of strengthening its presence in the original equipment manufacturing arena of continental Europe." He believes increased productivity could make these companies as profitable as BTR's Schlegel business in the US, which last year had profit margins of 12 per cent to 14 per cent on sales of £300m.

This is Pirelli's second large divestment since the tyre company decided six months ago to concentrate on core business, cut losses and reduce debt. The group plans to sell a total of seven business units.

Pirelli said that since the end of 1991, it had reduced overall debt from L3,700bn ($3.3bn) to L2,900bn. The remaining business units to be sold cover activities such as hoses, leisure goods and defence. Non-core business accounted for L1,700bn in annual turnover and the companies sold so far represent 40 per cent of this. Pirelli claims these sales, combined with a L500bn capital increase, have improved group finances and in the first five months of the year operations showed a marginal profit.

BTR also announced a sale in the US by a subsidiary of Hawker Siddeley, the UK engineering group it bought for £1.55bn last year. Interests in Richmond Power Enterprise, which owns a power plant in Virginia, have been bought by Enron Richmond Power for $15.4m, together with the assumption of borrowings worth $130m from BTR.



DAF in final negotiations to secure Fl 200m loans

By John Griffiths in London

DAF, the loss-making Dutch truck-maker in which British Aerospace has a 16 per cent stake, is in final negotiations to secure loans of Fl 200m ($110m) from a Dutch and a Belgian bank as part of efforts to strengthen its balance sheet.

The company, which recorded a net deficit last year of Fl 394.5m, compared with a loss of Fl 228m a year earlier, said yesterday it was also looking at "various other opportunities" for additional financing, which could bring the total injection of new cash to Fl 300m.

DAF is expected to conclude agreements with the Dutch National Investment Bank and the NMKN commercial bank of Belgium within the next few weeks. The National Investment Bank loan, for Fl 100m, is expected to be subordinated from the Dutch government.

The NMKN loan, also for Fl 100m, will also carry some guarantees from the Belgian government. The latter is concerned for the welfare of DAF's manufacturing presence in Belgium, notably its Westerlo axles plant near the Dutch border which employs 2,000.

With most European trucks markets continuing to be depressed, speculation was being discounted last night that BAe might use any strengthening of DAF's share price arising from the refinancing to dispose of its own holding in DAF.

DAF's financial performance is the weakest of the leading European truck-makers, largely due to its dependence on the UK truck market, which has suffered the steepest slide into recession since the second world war.

The heavy losses of the past two years have seriously weakened its balance sheet. Group capital and reserves have declined to only 26.3 per cent of total assets from 34 per cent in 1988-89, in spite of the proceeds of a Fl 250m convertible preference share issue last autumn.

Net income at Banco Popular rises to Pta27.8bn

By Peter Bruce in Madrid

BANCO POPULAR, the Spanish commercial bank, yesterday reported net income of Pta27.8bn ($238m) for the first half of 1992, an 18.9 per cent increase on the first six months of last year. Pre-tax income rose 13 per cent to Pta43.9bn.

The bank said that excluding an extraordinary gain of Pta1.6bn from the sale of a banking subsidiary, ordinary net income had grown 12 per cent in the first half.

Popular is recognised as one of the world's most profitable banks and the relatively slow growth in profits, it said, should be seen in the light of a sharp slowdown in the Spanish economy this year.

The bank said first half net interest income had grown by 5.8 per cent to Pta74.3bn and by 2.8 per cent since the end of the first quarter.

Ordinary operating income, which grew 4.2 per cent in the first half, to Pta53.9bn, had grown just 1.4 per cent in the second quarter.

Ellis & Everard shares slide as chairman quits

By Angus Foster in London

SHARES in UK chemicals distributor Ellis & Everard fell 13p, or 7 per cent, to 172p yesterday following the departure of Mr Michael Marshall, executive chairman since 1990, due to "management differences".

Mr Marshall, who built up a private chemicals company in the early 1980s, joined Ellis & Everard in 1986. He is temporarily replaced by Mr Simon Everard, a former chairman. "Mike was a successful entrepreneur. But building a private company and being a chairman of a PLC is different," Mr Everard said. Advisers to the company said there had been a clash of styles. Mr Marshall, who left the company on Friday, said he was very surprised. "It's all happened very suddenly in the last week," he said.

Ellis & Everard announced the shake-up along with lower-than-expected profits for last year, dragged down by margin pressures and a poor performance from its swimming pool chemicals division.

But Mr Everard said the company's problems were in no way similar to those of MTM, the specialist chemicals manufacturer which saw its shares collapse earlier this year following the chairman's resignation and a profits warning. "[Mr Marshall's] departure is in no way results-related," Mr Everard said.

Pre-tax profits fell to £12.6m in the year to April 30, from £17.5m. Operating profits for the pools division fell by more than £1m.

In the US, squeezed margins, combined with rising healthcare and insurance costs, led to a profits fall of 23.5 per cent to £5.2m. Turnover increased 7.1 per cent to £383.4m, helped by acquisitions in Ireland and Spain and the exchange rate.

There were extraordinary items of £9.5m, although £8.2m related to goodwill previously written off against reserves. The remaining £1.3m of provisions covered losses incurred on the disposal of two subsidiaries and a third which is for sale.

Earnings per share fell from 15.9p to 11.5p. An unchanged final dividend of 4.8p is recommended, to give a maintained total of 7.05p.

Mr Peter Wood, group managing director, said trading had improved since the year-end. Profits for the last three months were ahead of a year ago, he said.

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Foods group whets appetites for a sell-off

Haig Simonian examines why the time may have come for SME, which is seen as one of Italy's most appealing candidates for privatisation

SME, the Italian state-controlled foods and retailing group, is one of Italy's most appealing privatisation candidates. With Mr Giuliano Amato's new government apparently more serious than its predecessor about asset sales to slash the budget deficit, SME's time may have come.

The group, which is 62 per cent-owned by the IRI state holding company, made net profits of L125.6bn ($111m) after minorities last year on sales of L5,814bn. In none of the three areas in which it operates is it on a par with Europe's leaders. Food retailing, SME's biggest business and probably the most attractive to potential buyers, with sales of almost L2,500bn in 1991, is concentrated in the 221-store GS supermarket chain.

Restaurants and catering, the smallest of SME's activities, with turnover of just over L1,000bn, could also be appealing, although the loss-making Motta operation could be hard for buyers to digest. Meanwhile, food production, with 1991 revenues of more than L2,300bn, remains SME's most difficult nut to crack. While the Italgel frozen foods subsidiary performs strongly, the CBD canned foods and oils side is still losing money.

Privatisation is already under way. Last month saw the second stage in a three-step deal to transfer control of SME's Pavesi confectionery arm to Barilla, the big, private pasta group. Pavesi is the best-known of the four loss-making subsidiaries spun off into joint ventures with the private sector in 1990 in an attempt to improve profitability.

"The idea was to concentrate on a smaller number of businesses," says Mr Mario Artali, SME's chief executive for the past two years. With current sales of almost L280bn, Pavesi has been by far the most successful of the four.

The deal with Barilla, which bought an opening 49 per cent stake, allowed for the transfer of full control by 1993 at an agreed price of L240bn. Last month, the terms were altered slightly; Barilla bought a further 10 per cent for L80bn, giving it majority ownership ahead of schedule, and the two sides look set to conclude the full sale by next January.

Mr Artali admits that Pai, Adams and Nuova Forneria, the three other joint ventures, are not going so well, and full disposals probably remain dependent on a return to profitability. However, he stresses food production is no longer the "nightmare" it was when he joined. Setting up the joint ventures helped SME to concentrate on a smaller number of businesses, and progress has been made on improving earnings on the industrial side, partly by branching out into fresh milk.

The Pavesi sale has given SME the financial cushion to complete the restructuring of its food industry side, he says. By rejigging the deal last month to avoid bunching capital gains into one tax year, SME can look forward to substantial extraordinary earnings for the next two years, giving it time to tackle remaining problems in food production.

Mr Artali doubts further piecemeal privatisation is on the cards. Any decision to sell would have to come from the government via IRI. However, he makes clear his opposition to a sale. And if SME is to be privatised at all, it should be in one piece. Breaking the business up "has no sense", he says. "SME is too small, not too big." Mr Artali cites Spain, where foreign, notably French, groups have made deep inroads into food retailing, to the detriment of the indigenous agricultural and food industry. Imports of processed food rose at the expense of domestic producers. "It was a mistake for the country."

He also queries the financial arguments for privatising SME. Around 38 per cent of its shares are quoted, with a stock market capitalisation of about L1,700bn. But that substantially understates the value of the business, he argues. Placing the remaining shares would mean selling at a discount to the current market price, reducing the proceeds from privatisation. "Prices on the Milan stock market no longer reflect the value of a company," he said.

Mr Artali's hope is for SME to stay public at least long enough to expand those parts of the group, such as food retailing and catering, which are doing well, while gradually improving the food production side.

Mario Artali: Food production no longer a 'nightmare'

SME currently has about 8 per cent of the food retailing market in Italy. But although its GS chain ranks second only to the country's big co-operatives in food sales, Mr Artali thinks it is "not sufficient". Growth will come through expanding GS, concentrated in Piedmont and Lombardy in the north and Lazio and Campania in the south, into other parts of the country while filling in gaps where it is already well represented. The aim is to create new regional centres with sales of between L200bn and L300bn, he says.

Acquisitions could accelerate matters. SME has already integrated two small supermarket chains bought in the past two years. And Mr Artali would also like to set up more hypermarkets: the first is opening this year and plans call for around two launches a year.

Autogrill is also set to expand. The traditional motorway services business plans to develop abroad, while new domestic growth is expected through opening restaurants in new locations such as shopping centres. The company is even considering joint ventures – an unprecedented step – and looking at eastern Europe, where the motorway network, and related services, offer prospects to expand.

Mr Artali recognises the sizeable barriers to his plans. With only around 20 supermarket chains in Italy, chances for growth through acquisitions are limited. Moreover, prices are already sky-high and there are few sellers. Meanwhile, the pace of organic growth for both supermarkets and hypermarkets is restricted by planning rules and small retailers' hostility.

With Italy's motorway network virtually complete, he also accepts the catering business has reached its limits in many domestic locations. Autogrill will have to pump more business through existing roadside sites, while foreign expansion, though appealing, will not come easily. Meanwhile, urgent changes are necessary at Motta, the inner-city restaurant chain whose earnings no longer live up to its famous name.

Whatever the problems, SME has one big advantage over most of its public-sector counterparts. Its businesses generate cash, meaning it has relatively little debt and no need for heavy borrowing. Sales in the first five months of this year were 9.1 per cent up at L2,445bn, while earnings, swollen by extraordinary gains, should surge by at least 20 per cent to L155bn, according to Milan brokers Pasfin. SME's current L1,700bn three-year investment plan will be entirely self-financed, notes Mr Artali. In the end that, rather than politics, may be the main factor making privatisation less pressing.

Embattled Hafnia merges two banking subsidiaries

By Hilary Barnes in Copenhagen

HAFNIA, the troubled insurance group which is fighting for survival, announced that two of its banking subsidiaries will merge.

The group also announced yesterday the retirement of 10 senior managers, including Mrs Jette Arnskjold, the chief executive at Hafnia Insurance, and Mr H. E. Johansen, a member of the group board of management.

None of those to retire are associated with the irregularities which have been revealed at the group over the past two weeks, Hafnia said.

The two banks to merge are Hafnia Merchant Bank, the investment banking arm of the group, and Hafnia Trust & Investment Bank, a portfolio management subsidiary.

Last Friday, the Hafnia board decided to cancel a DKr8m ($1.4m) "golden handshake" for Mr Per Villum Hansen, who was dismissed from his position as group chief executive in April. Mr Hansen was responsible for the strategic share investments in Danish group Baltica and the Swedish insurance company, Skandia, which are at the root of the group's present financial problems.

● Chr. Hansen's Laboratorium, the biotechnology group which specialises in enzymes for food production and anti-allergy preparations, is to acquire the allergies subsidiary of Italy's Montedison for DKr305m, the group said.

The acquisition of Alergia e Inmmunologia Abello, which has headquarters in Madrid and a turnover of about DKr200m a year, will make Chr. Hansen's allergies subsidiary, Allergisk Laboratorium (ALK), the world's biggest producer of allergen products in the world, the Danish company said.

Venture sale helps Inland Steel return to the black

By Martin Dickson in New York

INLAND Steel, the large US steel producer, yesterday reported its first quarterly net profit in two years, but only after taking a $15.1m after-tax gain on the sale of an interest in a joint venture.

Inland was the first of the big, integrated US steel manufacturers to report its second-quarter figures. Its results were line with with expectations of generally narrowed losses as the US economy slowly improves.

Net income of $1.8m for the second quarter translated into a loss of 20 cents a share after payment of preferred dividends.

Excluding the joint venture sale gain, the net loss for the period was 69 cents a share, compared with a loss of $25m, or $1.07 a share, in the second quarter of last year.

Sales rose from $864.8m to $909.4m.

Mr Frank Luerssen, chairman, said the results reflected the slowly growing domestic economy. "While shipments have increased modestly, prices remain at unacceptable levels."

The company's integrated steel manufacturing business reported an operating profit of $13.3m after taking the $22.5m pre-tax gain on the joint venture sale. That compared with an operating loss of $25.5m in the second quarter of last year.

Steel sales rose 7 per cent to $508.5m, with shipments totalling 1.1m tons, up 3 per cent.

The company's steel service centre business reported operating profits of $9.5m, up from $6.8m a year ago, on sales 3 per cent higher at $434.3m.

Moody's upgrades Argentina

By Richard Waters

ARGENTINA has climbed a further two rungs up the ladder of international respectability in the investment community, according Moody's Investors Service, the US credit rating agency.

However, the country's large foreign debt and deteriorating current account position mean it is still rated only a B1 risk by Moody's, four notches below full investment grade.

Moody's also said it had no plans to review the ratings of other Latin American countries, despite the debt accord reached last week between Brazil's and its international bank creditors.

"Just a debt deal is not by any means sufficient," said Mr David Levey, head of sovereign debt ratings at Moody's. The agency did not expect any improvement in Brazil's economic position in the near future, he said, leaving it with a rating of B2.

Explaining the decision to lift the credit rating of Argentina's long-term debt from B3, Moody's pointed to significant steps in dismantling administrative and regulatory controls within the country. Also, Argentina has linked its currency more closely to the US dollar and made efforts to raise its tax revenues permanently.

Pointing to the country's current account deficit, and fears of a resurgence of inflation, Moody's concluded: "The potential for a reversal of current positive trends thus cannot be ruled out . . . but the credit rating agency does not expect a return to the chaotic conditions of the 1980s."

Venezuela and Mexico remain the two most highly-regarded of the countries with debt ratings in the region. Venezuela is rated by Moody's at Ba1 – just below investment grade – and BB by Standard & Poor's. Mexico is accorded Ba2 by Moody's.

Promotion and research hold down net at Intel

By Martin Dickson

INTEL, the leading US semiconductor manufacturer, yesterday reported an 8 per cent drop in second-quarter net income as heavy marketing and investment programmes ate into record revenues.

The company, which is facing increasing competition from chip 'cloners' such as Advanced Micro Devices, has been spending heavily on advertising to set itself apart from the crowd on a new generation of chips.

Intel reported net income of $213m, or $1 a share, compared with $231m, or $1.10, in the second quarter of last year. Revenues rose 5 per cent from $1.25bn to $1.32bn. The figures were broadly in line with market expectations.

For the first quarter of this year, Intel produced net income of $184m, or 86 cents a share, on revenues of $1.24bn.

It said business conditions were strongest in the US and Europe. Japan and the Asia-Pacific region, which had been relatively sluggish in recent quarters, improved from first-quarter levels.

It said its overall microprocessor business was "quite strong" in the second quarter, particularly in its newer products.

Revenues from the company's older "first wave" 386 DX and SX chips continued to decline as a result of the personal computer market's switch to more powerful "second wave" systems.

Revenues of standard semiconductor products and system-level products exceeded expectations for the quarter. The book-to-bill ratio for the period exceeded 1.0.

Fannie Mae tops quarterly profits record with $402m

By Patrick Harverson in New York

THE FEDERAL National Mortgage Association (Fannie Mae) yesterday reported its sixth consecutive quarter of record profits.

The largest residential mortgage provider in the US made a profit of $402m between April and June, eclipsing the previous record of $381.6m in the first three months of the year. The results were 21 per cent higher than the $331.5m earned in the second quarter of 1991.

The second quarter was the busiest ever in terms of the number of home loans bought from mortgage originators and the amount of mortgage-backed securities (MBS) sold to investors. The combined volume of these was a record $87bn, up from $55.6bn in the previous quarter.

Because of strong loan acquisitions and securitisations, the total MBS outstanding rose to $413bn and the net mortgage portfolio to $140bn by the end of the quarter.

The sharp increase in business activity helped offset a decline in Fannie Mae's net interest margin, which fell from an average of 145 basis points in the first quarter to 139 basis points. The company attributed this to increased refinancings in the mortgage portfolio.

Fannie Mae's acquisition of foreclosed properties rose slightly to 2,391, while charge-offs in the quarter were $58.6m, up from $56.7m in the first quarter. The serious delinquency rate for single-family home loans fell to 0.6 per cent in May of this year.

Fannie Mae's earnings were well received by investors. Its shares rose $¾ to $64¼ on the New York Stock Exchange.

Alcoa in red after $104m charge

By Kenneth Gooding, Mining Correspondent

ALUMINIUM Company of America (Alcoa), the world's biggest aluminium company, plunged to a loss of $30.6m, or 37 cents a share, in the second quarter. The decline followed after-tax charges totalling $104.7m, or $1.22 a share.

The charges also pushed Alcoa's first-half earnings down 74.5 per cent from $178.2m, or $2.09 cents, to $45.4m, or 52 cents.

The company maintained it had done reasonably well, considering the turmoil in the industry and low aluminium prices, to be able to report earnings of $74.1, or 85 cents, before charges in the second quarter. In the same months of 1991, net earnings were $81.2m, or 95 cents.

Although sales in the second quarter fell from $2.57bn to $2.41bn, shipments were up from 659,000 tonnes to 706,000 tonnes. In the first half, sales slipped from $4.98bn to $4.66bn while shipments totalled 1.37m tonnes, against 1.34bn in 1991.

Although aluminium prices were substantially lower in the quarter, the impact was mostly offset by a fall in costs, a favourable tax rate, and reductions in finance costs.

The second-quarter charges included $44.9m ($65.9m before tax), or 52 cents, for redundancy payments. Alcoa said recently it would reduce its world-wide workforce of 65,000 by 2,100 this year.

There is also an extraordinary charge of $50.2m, or 59 cents, for the previously-announced redemption of high-cost debt to reduce financing costs, and a charge of $9.6m, or 11 cents, paid to US hourly employees to extend labour contracts by one year.

This is the second time in six months Alcoa has been hit by substantial charges. In the fourth quarter of 1991 it suffered charges of $217m relating to the cost of environmental clean-ups and restructuring.

US stores operator tumbles to $22.8m

By Nikki Tait in New York

GREAT Atlantic and Pacific Tea Company, one of the largest US supermarket operators, saw first-quarter profits tumble.

The company, which is 53 per cent-owned by Germany's Tengelmann group, also revealed it was writing off the value of its equity stake in Isosceles, which owns the UK Gateway grocery chain. A&P owns 7.2 per cent of Isosceles and is taking a $89.2m provision to cover the potential loss on its holding.

The after-tax figure, before the Isosceles provision and other one-off accounting items, was $22.8m, compared with $36.2m a year earlier. Sales slipped from $3.59bn to $3.32bn, while operating profits fell to $60.1m from $89.8m.

A&P has been badly hit by general food price deflation and acute competition in the supermarket industry. Acquisitions in Canada and Michigan have also proved tough to integrate.

However, the company said the climate was gradually improving, as the US economy hauls itself out of recession.

A&P shares eased $⅝ to $26⅝ yesterday morning, close to their 52-week low.

New Mexican fund launched by Shearson

By Stephen Fidler

SHEARSON Lehman Brothers has launched a new open mutual fund for non-US investors to invest in Mexican equities.

The aim is long-term capital appreciation through investment in companies with a market capitalisation of at least $50m. Shares can be purchased in Mexican and US markets. At least 10 per cent of its assets will be placed in Mexican government debt obligations or in US money market instruments.

The fund is managed by Acci Worldwide along with Shearson Lehman's asset management arm. Minimum initial investment is $25,000.

Nevada gaming benefits Hilton's second quarter

By Nikki Tait

HILTON Hotels, the California-based casinos and lodging group, reported second-quarter profits of $32.4m, up from $23.6m in the same period a year earlier. The result follows sharply higher results from its Nevada gaming interests.

Total revenue was just 3 per cent higher at $294.8m.

Hilton saw markedly different performances from its two main business segments. The hotels division saw a 10 per cent fall in operating profits to $29.7m, while gaming reported a 49 per cent advance to $37.5m.

Hilton said that, on the lodging front, hotel occupancy was 69 per cent, compared with 68 per cent a year earlier, but that the division was still beset by "sluggish economic recovery and excess capacity".

Conditions in some key markets – such as New York, Chicago and Washington – were described as "difficult", with room rates remaining under pressure. Hilton said, however, that all four of its Nevada gaming properties fared well.

It added that it was still pursuing riverboat gambling plans in New Orleans, and the Chicago gaming centre scheme. The latter proposal is for a $2bn complex – combining gaming and a high-tech theme park – which would be built by a number of casino companies, including Hilton.

Pathé common stock suspension

THE NEW York Stock Exchange is to suspend trading in the common stock of Pathé Communications, AP-DJ reports. An application will then be made to the Securities and Exchange Commission to delist the issue.

The NYSE normally considers suspension when a company falls below any of its continued listing criteria.

NEWS IN BRIEF

EDI stake bought by Chinese

FUJIAN Provincial Light Industrial Import and Export Company, a Chinese state-owned group, has bought 40 per cent of EDI, a small US electronics company, Reuter reports.

The group is reported to have bought 40.53 per cent of EDI. The move would help China gain access to "the most modern technology, equipment and products in the field and help it elbow its way into the international high-tech market," according to China's Xinhua News Agency.

Fujian has acquired three seats on EDI's seven-member board of directors and will send senior personnel to join EDI management.

Japanese clothier to produce in China

TAKA-Q, a Japanese clothes manufacturer, will set up a joint venture next month to produce and sell men's and women's clothes in China, Reuter reports from Tokyo.

The joint venture, named Beijing Taka-Q Leimeng Fashion Company and capitalised at Y600m ($4.8m), will be 51 per cent-owned by Taka-Q, 35 per cent by Beijing Garment Industry Group and the rest by two Japanese Taka-Q affiliates.

It plans to invest Y1.2bn, and start producing next January. A shop will open in Beijing in autumn 1993 with an annual sales target of Y300m in the first year and Y750m by 1994.

Banks lead rescue

SIX leading Japanese commercial banks are leading financial assistance efforts for Nichiboshin's mortgage securities affiliate Tokyo Mortgage Acceptance Corporation (MAC), AP-DJ reports from Tokyo.

The banks are expected to provide Y150bn in aid at low-interest financing.

Gold Fields of SA to merge units

By Philip Gawith in Johannesburg

GOLD Fields of South Africa, one of the country's largest mining houses, plans to merge the operations of two of its marginal gold mines, Libanon and Venterspost, with Kloof, one of the richest mines.

The merger arises from the precarious financial position of the Venterspost mine, which would otherwise have been forced to close with severe knock-on implications for Libanon and Kloof. Mr Alan Munro, executive director, said: "The race against time has been lost."

The merger needs to be approved by shareholders.

Venterspost made losses of nearly R9m ($3.35m) in the year to June, while its cash assets declined to R14m compared with R139m two years previously.

Libanon made less than R0.5m profit compared with capital expenditure of R6.4m in the year to June. Kloof is one of the richest mines in the world, with an average grade of 13.5 grams per tonne in the year to June and working profits of R386m.

The three Western Transvaal mines are contiguous, and closure of the marginal operations would have created a serious water problem for Kloof. To deal with this problem, Kloof would otherwise have had to make investment of about R100m for new pumps.

It would have faced extra pumping costs of about R70m a year, and production losses of about R1bn, said Mr Munro. Pumping at Venterspost and Libanon will cost only about R48m a year.

The merger involves shareholders in Libanon and Venterspost being given shares in Kloof at a ratio of nine Kloof shares for every 100 Libanon shares and six Kloof shares for every 100 Venterspost shares.

Kloof will issue 6.6m shares, a dilution of about 5 per cent on the current issued share capital of 121m shares. The deal places a joint value of about R165m on Venterspost and Libanon.

Mr Munro said he was confident that the integrated operation could lift profits by the necessary 5 per cent in order to maintain the dividend at its current level.

If the deal gets shareholder approval the restructured Kloof will have three operating arms: the existing Kloof division, the new Leeudoorn extension to Kloof and a composite Libanon/Venterspost operation.

The new division will produce at a rate of about 145,000 tonnes per month – significantly less than current joint production level of about 190,000 tonnes at the two mines.

● The gold mines in the Gold Fields group lifted their average grade to 8.6 grams per tonne in the June quarter, from 8.4 grams in the March quarter. This helped lift gold production by a tonne to 30.6 tonnes.

The gold price received dropped to R31,086 per kg from R31,911 per kg in the March quarter. This saw working profit drop to R299m from R317m. A lower tax bill, due to a doubling in the level of capital expenditure, and higher sundry revenue helped push after-tax profit up to R287m from R208m in March.

● Doornfontein Gold Mining, a company managed by Gold Fields of South Africa, yesterday announced a net loss of R4.91m for the second quarter ending on June 30, Reuter reports from Johannesburg.

This is an improvement on the R7.01m net loss for the previous quarter. Gold output rose sharply from just over 1 tonne in the first quarter to 1.534 tonnes in the second quarter.

Seagram goes hard on soft drinks

By Philip Rawstorne

SEAGRAM, one of the world's biggest producers of hard liquor, has embarked on an ambitious and aggressive drive to become a global player in the orange juice business.

The Canadian company – best known for its Glenlivet, Chivas Regal and Martell labels – got into fruit juice in a big way in 1988 with the $1.2bn acquisition of Tropicana, a leading US producer of orange juice.

The deal marked Seagram's first large foray into non-alcoholic drinks.

"It was seen as a longer-term strategic investment, broadening Seagram's base in the beverage business," says Mr Myron Roeder, president of Tropicana International.

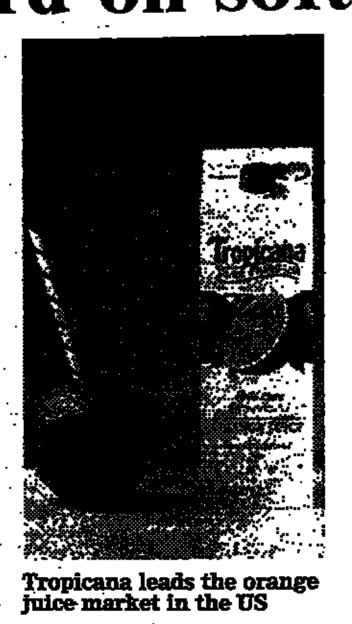
Fruit juices and juice-based drinks comprise the second largest grocery category in the US, with retail sales growing by close on 50 per cent over the past 10 years to $11.3bn last year. Orange juice is worth in excess of $3bn a year.

Ten years ago, ready-to-serve juice accounted for 30 per cent of sales: the rest came from frozen concentrate. Today, ready-to-serve juice has a 56 per cent share of the US market, and Tropicana is the ready-to-serve brand leader.

At the time of its takeover, Tropicana had annual sales of $700m, mainly in the eastern half of the US. By the end of 1990 the brand was being distributed nationally with sales running at about $1.2bn a year.

Tropicana leads the overall orange juice market in the US with an estimated volume share last year of 22 per cent. It claims to buy a quarter of Florida's orange crop. But the brand has been extended successfully across other fruit drinks, notably a combination of orange with cranberry and mango.

Latterly, Tropicana has been pushing hard into international markets with aggressive sales drives into Japan and Canada. Tropicana has entered the $1.9bn UK market and ventured into France, but a pan-European framework has been established in anticipation of the single European market next year. A headquarters team has been set up in Paris.


Tropicana leads the orange juice market in the US

In France, Tropicana acquired Maxime Delrue, a company which has handled its bottled juice exports for 25 years, and has signed a distribution agreement with Cedilac, a leading dairy company.

Tropicana has high hopes for Europe: the market is generally fragmented and unbranded, and annual consumption per head is barely half the 40 litres of the US. Mr Roeder sees no reason why similar growth should not be secured. "In every country we enter, our first aim is to be the leading advertiser in the category."

That makes Tropicana's expansion an expensive business and this is fully reflected in operating profits. In spite of strong sales, profits have been flat for the past three years. After restructuring charges of $34m last year, Seagram's income from the total juices, mixers and coolers operations amounted to $79m against $895m from spirits and wines.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Monday, July 13, 1992. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

COUNTRY		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	99.25	51.4381	34.794	41.1825
Albania	(Lek)	96.087	49.7989	33.6851	39.8701
Algeria	(Dinar)	39.799	20.6265	13.9523	16.5141
Andorra	(Fr Fr)	9.6275	4.9896	3.3751	3.9948
	(Sp Peseta)	181.60	94.1176	63.6634	75.3526
Angola	(Kwanza)	1040.92	539.477	364.915	431.917
Antigua	(E Car $)	5.1887	2.6891	1.819	2.1529
Argentina	(Peso)	1.9095	0.9896	0.6694	0.7923
Aruba	(Florin)	3.4394	1.7827	1.2059	1.4273
Australia	(Aus $)	2.5815	1.3379	0.9049	1.0711
Austria	(Schilling)	20.075	10.4042	7.0376	8.3298
Azores	(Port Escudo)	242.50	125.68	85.0131	100.622
Bahamas	(Bahama $)	1.9295	1	0.6764	0.8006
Bahrain	(Dinar)	0.72316	0.3747	0.2534	0.3
Balearic Is	(Sp Peseta)	181.60	94.1176	63.6634	75.3526
Bangladesh	(Taka)	66.0	34.2057	23.1375	27.3858
Barbados	(Barb $)	3.8695	2.0032	1.355	1.6034
Belgium	(Belg Fr)	58.95	30.5519	20.666	24.4605
Belize	(B $)	3.8435	1.9919	1.3474	1.5948
Benin	(CFA Fr)	481.375	249.482	168.755	199.741
Bermuda	(Bermudian $)	1.9295	1	0.6764	0.8006
Bhutan	(Ngultrum)	55.0	28.5047	19.2813	22.8215
Bolivia	(Boliviano)	7.4735	3.8743	2.6207	3.1019
Botswana	(Pula)	3.9649	2.0502	1.3868	1.6414
Brazil	(Cruzeiro)	7051.1	3657.99	2474.36	2928.6?
Brunei	(Brunei $)	3.106	1.6097	1.0888	1.2887
Bulgaria	(Lev)	40.0	20.7307	14.0227	16.5974
Burkina Faso	(CFA Fr)	481.375	249.482	168.755	199.741
Burma	(Kyat)	11.2275	5.8189	3.936	4.6587
Burundi	(Burundi Fr)	399.85	207.23	140.175	165.913
Cambodia	(Riel)	1633.5	846.592	572.656	677.801
Cameroon	(CFA Fr)	481.375	249.482	168.755	199.741
Canada	(Canadian $)	2.2980	1.1909	0.8056	0.9535
Canary Is	(Sp Peseta)	181.60	94.1176	63.6634	75.3526
Cp Verde	(CV Escudo)	122.973	63.733	43.1106	51.0261
Cayman Is	(CI $)	1.6335	0.8465	0.5726	0.6778
Cent.Afr. Rep	(CFA Fr)	481.375	249.482	168.755	199.741
Chad	(CFA Fr)	481.375	249.482	168.755	199.741
Chile	(Chilean Peso)	693.65	359.497	243.173	287.822
China	(Renminbi Yuan)	10.494	5.4387	3.6788	4.3543
Colombia	(Col Peso)	1200.64	622.254	420.908	498.191
CIS	(Rouble)	1.0538o	0.5461	0.3694	0.4372
		251.09m	130.132	88.0245	104.187
Comoros	(CFA Fr)	481.375	249.482	168.755	199.741
Congo (Brazz)	(CFA Fr)	481.375	249.482	168.755	199.741
Costa Rica	(Colon)	256.65	133.014	89.9737	106.494
Côte d'Ivoire	(CFA Fr)	481.375	249.482	168.755	199.741
Cuba	(Cuban Peso)	1.4549	0.754	0.51	0.6036
Cyprus	(Cyprus £)	0.8317	0.431	0.2915	0.3451
Czechoslovakia	(Koruna)	53.13c	27.5356	18.6257	22.0456
		51.30t	26.5871	17.9842	21.2863
Denmark	(Danish Kroner)	10.9925	5.697	3.8536	4.5612
Djibouti Rep	(Djib Fr)	340.0	176.211	119.194	141.079
Dominica	(E Carrib $)	5.1887	2.6891	1.819	2.1529
Dominican Rep	(D Peso)	24.9827	12.9477	8.7581	10.3662
Ecuador	(Sucre)	2755.12o	1427.89	965.862	1143.2
		2837.74a	1470.71	994.826	1177.49
Egypt	(Egyptian £)	6.392	3.3127	2.2408	2.6522
El Salvador	(Colon)	15.4402	8.0021	5.4128	6.4067
Equat'l Guinea	(CFA Fr)	481.375	249.482	168.755	199.741
Ethiopia	(Ethiopian Birr)	3.9022	2.0223	1.3679	1.6191
Falkland Is	(Falk £)	1.00	0.5182	0.3505	0.4149
Faroe Is	(Danish Kroner)	10.9925	5.697	3.8536	4.5612
Fiji Is	(Fiji $)	2.8355	1.4695	0.994	1.1765
Finland	(Markka)	7.813	4.0492	2.739	3.2419
France	(Fr)	9.6275	4.9896	3.3751	3.9948
Fr. Cty/Africa	(CFA Fr)	481.375	249.482	168.755	199.741
Fr. Guiana	(Local Fr)	9.6275	4.9896	3.3751	3.9948
Fr Pacific Is	(CFP Fr)	174.0	90.1788	60.9991	72.1991
Gabon	(CFA Fr)	481.375	249.482	168.755	199.741
Gambia	(Dalasi)	16.8537	8.7347	5.9083	6.9932
Germany	(D-Mark)	2.8525	1.4783	1	1.1836
Ghana	(Cedi)	800.0	414.615	280.456	331.95
Gibraltar	(Gib £)	1.00	0.5182	0.3505	0.4149
Greece	(Drachma)	349.4	181.083	122.489	144.979
Greenland	(Danish Kroner)	10.9925	5.697	3.8536	4.5612
Grenada	(E Carr $)	5.1887	2.6891	1.819	2.1529
Guadaloupe	(Local Fr)	9.6275	4.9896	3.3751	3.9948
Guam	(US $)	1.9295	1	0.6764	0.8006
Guatemala	(Quetzal)	9.89	5.1256	3.4671	4.1037
Guinea	(Fr)	1561.0	809.018	547.241	647.718
Guinea-Bissau	(Peso)	9609.75	4979.52	3368.34	3987.03
Guyana	(Guyanese $)	238.49	123.602	83.6073	98.9585
Haiti	(Gourde)	9.609	4.98	3.3686	3.9871
Honduras	(Lempira)	10.465	5.4236	3.6687	4.3423
Hong Kong	(HK $)	14.91	7.7273	5.2269	6.1867
Hungary	(Forint)	149.13	77.2894	52.2804	61.8796
Iceland	(Icelandic Krona)	106.381	55.1339	37.2939	44.1414
India	(Indian Rupee)	55.0	28.5047	19.2815	22.8215
Indonesia	(Rupiah)	3922.68	2033	1375.17	1627.67
Iran	(Rial)	2738.0r	1419.02	959.86	1136.1
		121.40o	62.9178	42.5591	50.3734
Iraq	(Iraqi Dinar)	0.5936	0.3076	0.2081	0.2463
Irish Rep	(Punt)	1.0705	0.5548	0.3752	0.4441
Israel	(Shekel)	4.6899	2.4306	1.6441	1.946
Italy	(Lira)	2159.50	1119.2	757.055	896.058
Jamaica	(Jamaican $)	42.2785	21.9116	14.8215	17.5429
Japan	(Yen)	241.00	124.903	84.4873	100
Jordan	(Jordanian Dinar)	1.2857	0.6663	0.4507	0.5334
Kenya	(Kenya Shilling)	62.111	32.1902	21.7742	25.7721
Kiribati	(Australian $)	2.5815	1.3379	0.9049	1.0711
Korea North	(Won)	4.1894	2.1712	1.4686	1.7383
Korea South	(Won)	1515.6	785.488	531.323	628.88
Kuwait	(Kuwaiti Dinar)	0.5565	0.2884	0.195	0.2309
Laos	(New Kip)	1374.0	712.102	481.683	570.124
Lebanon	(Lebanese £)	3386.3	1755.01	1187.13	1405.1
Lesotho	(Maluti)	5.2845	2.7387	1.8525	2.1927
Liberia	(Liberian $)	1.9295	1	0.6764	0.8006
Libya	(Libyan Dinar)	0.5127	0.2657	0.1797	0.2127
Liechtenstein	(Swiss Fr)	2.5775	1.3358	0.9035	1.0695
Luxembourg	(Lux Fr)	58.95	30.5519	20.666	24.4605
Macao	(Pataca)	15.347	7.9538	5.3801	6.368
Madagascar	(MG Fr)	3067.10	1589.58	1075.23	1272.66
Madeira	(Port Escudo)	242.50	125.68	85.0131	100.622
Malawi	(Kwacha)	7.5044	3.8892	2.6308	3.1138
Malaysia	(Ringgit)	4.818	2.497	1.689	1.9991
Maldive Is	(Rufiya)	19.141	9.9201	6.7102	7.9423
Mali Rep	(CFA Fr)	481.375	249.482	168.755	199.741
Malta	(Maltese £)	0.5832	0.3022	0.2044	0.2419
Martinique	(Local Fr)	9.6275	4.9896	3.3751	3.9948
Mauritania	(Ouguiya)	157.238	81.4915	55.1228	65.2439
Mauritius	(Maur Rupee)	29.0	15.0298	10.1665	12.0331
Mexico	(Mexican Peso)	5790.75	3001.17	2030.06	2402.8
Miquelon	(Local Fr)	9.6275	4.9896	3.3751	3.9948
Monaco	(French Fr)	9.6275	4.9896	3.3751	3.9948
Mongolia	(Togrik)	76.87	39.8393	26.9482	31.8962
Montserrat	(E Carr $)	5.1887	2.6891	1.819	2.1529
Morocco	(Dirham)	15.74	8.1575	5.5179	6.5311
Mozambique	(Metical)	4899.8	2539.41	1717.72	2033.11
Namibia	(S A Rand)	5.2845	2.7387	1.8525	2.1927
Nauru Is	(Australian $)	2.5815	1.3379	0.9049	1.0711
Nepal	(Nepalese Rupee)	87.50	45.3485	30.6748	36.307
Netherlands	(Guilder)	3.2175	1.6675	1.1279	1.335
N'nd Antilles	(A/Guilder)	3.440	1.7828	1.2059	1.4273
New Zealand	(NZ $)	3.5265	1.8276	1.2362	1.4632
Nicaragua	(Gold Cordoba)	9.609	4.98	3.3686	3.9871
Niger Rep	(CFA Fr)	481.375	249.482	168.755	199.741
Nigeria	(Naira)	35.072	18.45	12.2951	14.5526
Norway	(Nor. Krone)	11.2150	5.8123	3.9316	4.6535
Oman	(Rial Omani)	0.7425	0.3848	0.2602	0.308
Pakistan	(Pak. Rupee)	43.0	22.2855	15.0744	17.8423
Panama	(Balboa)	1.9295	1	0.6764	0.8006
Papua New Guinea	(Kina)	1.8420	0.9546	0.6457	0.7643
Paraguay	(Guarani)	2833.74	1468.64	993.425	1175.83
Peru	(New Sol)	2.17	1.1246	0.7607?	0.9004?
Philippines	(Peso)	47.25	24.4882	16.5644	19.6058
Pitcairn Is	(£ Sterling)	1.00	0.5182	0.3505	0.4149
	(NZ $)	3.5265	1.8276	1.2362	1.4632
Poland	(Zloty)	25894.0	13420.1	9077.65	10744.4
Portugal	(Escudo)	242.50	125.68	85.0131	100.622
Puerto Rico	(US $)	1.9295	1	0.6764	0.8006
Qatar	(Riyal)	7.0216	3.639	2.4615	2.9135
Reunion Is. de la	(F/Fr)	9.6275	4.9896	3.3751	3.9948
Romania	(Leu)	685.06q	355.045	240.161	284.257
Rwanda	(Fr)	265.75	137.73	93.1638	110.27
St Christopher	(E Carr $)	5.1887	2.6891	1.819	2.1529
St Helena	(£)	1.00	0.5182	0.3505	0.4149
St Lucia	(E Carr $)	5.1887	2.6891	1.819	2.1529
St Pierre	(French Fr)	9.6275	4.9896	3.3751	3.9948
St Vincent	(E Carr $)	5.1887	2.6891	1.819	2.1529
San Marino	(Italian Lira)	2159.50	1119.2	757.055	896.058
Sao Tome	(Dobra)	461.22	239.036	161.69	191.378
Saudi Arabia	(Riyal)	7.234	3.7491	2.536	3.0016
Senegal	(CFA Fr)	481.375	249.482	168.755	199.741
Seychelles	(Rupee)	9.10	4.7162	3.1901	3.7759
Sierra Leone	(Leone)	816.74	423.291	286.324	338.896
Singapore	($)	3.106	1.6097	1.0888	1.2887
Solomon Is	($)	5.6330	2.9194	1.9747	2.3373
Somali Rep	(Shilling)	5035.0	2609.48	1765.12	2089.21
South Africa	(Rand)	5.2845c	2.7387	1.8525	2.1927
		7.592q	3.9346	2.6615	3.1502
Spain	(Peseta)	181.60	94.1176	63.6634	75.3526
Spanish Ports in N Africa	(Sp Peseta)	181.60	94.1176	63.6634	75.3526
Sri Lanka	(Rupee)	76.0	39.3884	26.6432	31.5352
Sudan Rep	(Dinar)	19.217	9.9595	6.7368	7.9738
Surinam	(Guilder)	3.4303	1.7778	1.2025	1.4233
Swaziland	(Lilangeni)	5.2845	2.7387	1.8525	2.1927
Sweden	(Krona)	10.3575	5.3679	3.631	4.2977
Switzerland	(Fr)	2.5775	1.3358	0.9035	1.0695
Syria	(£)	38.915	20.1684	13.6424	16.1473
Taiwan	($)	47.7	24.7214	16.7221	19.7925
Tanzania	(Shilling)	565.47	293.066	198.237	234.635
Thailand	(Baht)	48.7	25.2396	17.0727	20.2074
Togo Rep	(CFA Fr)	481.375	249.482	168.755	199.741
Tonga Is	(Pa Anga)	2.5815	1.3379	0.9049	1.0711
Trinidad/Tobago	($)	8.1674	4.2329	2.8632	3.3889
Tunisia	(Dinar)	1.6269	0.8431	0.5703	0.675
Turkey	(Lira)	13207.9	6845.24	4630.29	5480.46
Turks & Caicos	(US $)	1.9295	1	0.6764	0.8006
Tuvalu	(Australian $)	2.5815	1.3379	0.9049	1.0711
Uganda	(New Shilling)	2276.1	1179.63	797.932	944.44
U A E	(Dirham)	7.084	3.6714	2.4834	2.9394
United Kingdom	(£)	1.00	0.5182	0.3505	0.4149
United States	(US $)	1.9295	1	0.6764	0.8006
Uruguay	(Peso)	5891.40	3053.33	2065.35	2444.56
Vanuatu	(Vatu)	214.0	110.91	75.0219	88.7966
Vatican	(Lira)	2159.50	1119.2	757.055	896.058
Venezuela	(Bolivar)	128.96	66.8359	45.2094	53.5103
Vietnam	(Dong)	21504.4	11145.1	7538.79	8922.99
Virgin Is-British	(US $)	1.9295	1	0.6764	0.8006
Virgin Is-US	(US $)	1.9295	1	0.6764	0.8006
Western Samoa	(Tala)	4.7031	2.4374	1.6487	1.9514
Yemen (Rep of)	(Rial)	30.844	15.9854	10.8129	12.7983
Yemen (Rep of)	(Dinar)	0.8936	0.4631	0.3132	0.3707
Yugoslavia	(New Dinar)	383.90(1)	198.963	134.584	159.295
Zaire Rep.	(Zaire)	997800.0	517129	349798	414025
Zambia	(Kwacha)	316.61	164.089	110.994	131.373
Zimbabwe	($)	9.4742	4.9101	3.3213	3.9312

Special Drawing Rights July 10, 1992 United Kingdom £0.753054 United States $1.43773 Germany D Mark 2.16738 Japan Yen180.507
European Currency Unit Rates July 13, 1992 United Kingdom £0.714822 United States $1.37725 Germany D Mark 2.04177 Japan Yen172.390

Abbreviations: (a) Free rate; (b) Banknote rate; (c) Commercial rate; (d) Controlled rate; (e) Essential Imports; (g) Financial rate; (h) Exports; (i) Non commercial rate; (j) Business rate; (k) Buying rate; (l) Luxury goods; (m) Market rate; (n) Public transaction rate; (o) Official rate; (p) preferential rate; (q) convertible rate; (r) parallel rate; (s) Selling rate; (t) Tourist rate (u) Currencies fixed against the US Dollar (v) Floating rate; (1) Yugoslav Dinar devalued by 85%. Currency now called New Dinar.
Some data supplied by Bank of America, Economics Department, London Trading Centre. Enquiries: 071 634 4360/5.
Monday, July 13, 1992

INTERNATIONAL CAPITAL MARKETS

Foreign weakness prompts slide in Treasuries

By Patrick Harverson in New York and Tracy Corrigan in London

US TREASURY prices fell yesterday as weakness in foreign markets overnight carried through into New York trading.

GOVERNMENT BONDS

In late trading, the benchmark 30-year government bond was down ½ at 103⅔, yielding 7.673 per cent. The two-year note was also lower, down ⅛ at 101⅝ to yield 4.361 per cent. Trading activity was described as extremely quiet.

After late selling on Friday, and early Monday losses in Asia and Europe, it was no surprise that bonds opened lower in the US markets. Traders, searching for an explanation for the lack of strength in Treasuries, cited the weakness in the dollar (which has been undermined by talk of a tightening in German monetary policy) and doubts about the outcome of this year's presidential election.

Minds of dealers and investors are likely to remain focused on political risk in the market because of the Democratic National Convention.

As for the economic fundamentals, trading will be light until today's June retail sales and consumer prices data is released. Later in the week June industrial production figures will be published, followed by last month's housing data and May's trade balance, all of which should give bond market participants a clearer idea of how the economic recovery is progressing.

In the credit markets, after trading at 3⅜ per cent for the first half of the day, Fed funds firmed slightly to 3¼ per cent, the target recently set by the Federal Reserve. The upward move in the rate was achieved without any intervention by the Fed.

■ THE Spanish bond yield curve became even more sharply inverted yesterday as dealers speculated that the Bank of Spain may decide to notch up money market rates ahead of Thursday's Bundesbank meeting.

Ten-year Spanish bonds now yield 11.51 per cent, compared with a 12-month rate of 12.87 per cent.

The Bank of Spain intervened heavily in the foreign exchange market yesterday to protect the peseta, at Pta63.70 against the D-Mark. Dealers said the currency came under pressure due to worries about a Bundesbank squeeze on monetary conditions, if not a rate rise, at Thursday's meeting.

The longer end of the Spanish bond market benefited from good news on inflation, running at 6.2 per cent year on year, according to June figures.

The Spanish bond market is currently "stuck in a spread range of 350 to 380 basis points over bund yields ahead of the French referendum on the Maastricht treaty in September," according to Mr Steve Major, international bond analyst at Crédit Lyonnais.

■ THE German bund market fell a ¼-point yesterday on concerns that the Bundesbank will raise rates at Thursday's meeting. Although many analysts do not expect the key Lombard rate to be altered, the Bundesbank has a number of other options which would allow it to tighten monetary conditions.

"The Bundesbank meeting is the sole focus of the market this week," one trader said.

The new 10-year bund ended at a yield of 7.98 per cent, with some support at a yield of 8 per cent: the price has already fallen 40 basis points since Friday's auction.

■ UK gilt prices dropped half a point yesterday as sterling's weakness continued to depress market sentiment. Dealers reported relatively low volume in the cash market, as prices were marked down early on Monday morning. A technical support level at 98.30 on the gilt future on Liffe is underpinning the market, dealers said.

"The fact that the government has left sterling below the narrow band floor has led to some questioning of government policy on the Exchange Rate Mechanism," said Mr Adrian James, international bond analyst at NatWest Capital Markets.

■ JAPANESE government bonds ended ⅜ point higher, boosted by speculation that the reserve ratio for commercial banks deposited with the Bank of Japan may be lowered.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		10.000	10/02	107.2036	-0.001	8.91	8.67	8.66
BELGIUM		9.000	06/01	100.6000	-0.250	8.90	8.82	8.60
CANADA *		8.500	04/02	104.1300	-0.550	7.88	7.91	8.15
DENMARK		9.000	11/00	99.4000	-0.300	9.09	8.99	8.99
FRANCE	BTAN	8.500	03/97	97.6040	-0.196	9.13	8.95	8.94
	OAT	8.500	11/02	97.6000	-0.350	8.81	8.73	8.75
GERMANY		8.000	01/02	99.6350	-0.330	8.04	7.96	7.93
ITALY		12.000	05/02	94.7100	-0.310	13.381	13.42	13.19
JAPAN	No 119	4.800	06/99	97.0937	+0.148	5.38	5.44	5.72
	No 129	6.400	03/00	106.7685	+0.088	5.17	5.23	5.48
NETHERLANDS		8.250	02/02	99.3900	-0.210	8.33	8.27	8.28
SPAIN		11.300	01/02	98.0000	-0.270	11.62	11.69	11.55
UK GILTS		10.000	11/96	102-21	-15/32	9.23	9.06	9.17
		9.750	08/02	104-11	-18/32	9.08	9.02	9.12
		9.000	10/08	101-03	-20/32	8.87	8.83	9.01
US TREASURY *		7.500	05/02	103-22	-12/32	6.97	6.89	7.27
		8.000	11/21	103-22	-17/32	7.68	7.81	7.83
ECU (French Govt)		8.500	03/02	96.7500	-0.360	9.01	8.88	8.98

London closing *New York closing. Yields: Local market standard. † Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.) Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Matsushita prepares first $1bn global launch

By Simon London

MATSUSHITA, the Japanese electronics group, was yesterday preparing to launch a global bond issue of at least $1bn, the first global issue by a corporation.

INTERNATIONAL BONDS

The deal has been expected for some weeks, but yesterday bankers met to discuss the pricing and maturity, and the launched is likely today.

Global bonds are registered securities which trade simultaneously in the US, Eurobond and Far Eastern securities markets. The style of borrowing was pioneered by the World Bank and has been followed by other sovereign and supranational borrowers, but never by a company.

The Matsushita bonds are likely to be launched at an indicated yield spread over US Treasury bonds, with the issue price and coupon fixed after launch. A 10-year maturity, priced to yield 42 to 45 basis points more than Treasuries was anticipated. Lehman Brothers and Credit Suisse First Boston have been mandated to jointly lead-manage the transaction.

Matsushita recently lost its top credit rating from Standard & Poor's, the US credit rating agency, but retains the top grade from rival agency Moody's.

The US Treasury bond market retained a weak tone yesterday after falling heavily on Friday. Heavy issuance last week in both the Eurobond and US corporate bond markets has left unsold paper.

Against this, Matsushita will offer a wider yield spread than the World Bank, which last week launched a five-year global bond yielding just 5 basis points more than Treasury bonds.

Elsewhere, the European Investment Bank struggled to breathe life into the Eurolire market, launching a L500bn 10-year issue, lead-managed by Banca Commerciale Italiana.

The deal attracted buying from Italian investors, who pay no withholding tax on bonds issued by supranational agencies, of which Italy is a member.

The 11.25 per cent bonds were priced at 101.875, but by the close in London the paper was quoted at 99.88 bid, just outside full fees of 1.875.

Abbey National launched a $200m three-year issue, aimed primarily at retail investors in Switzerland. The paper was price to yield 42 basis points more than treasury bonds of similar maturity.

● Standard & Poor's has lowered National Westminster Bank's long-term debt rating by one notch from AA + to AA.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Abbey Nat.Treas.Servs(a)†	200	5.375	101.175	1995	1.375/1.175	CSFB
CANADIAN DOLLARS						
Z-Lnderbk.(Cayman Is.)(a)†	200	6.625	101.0375	1996	1⅜/1.1875	Salomon Bros.
YEN						
Sumitomo Metal(c)‡†	10bn	(c)	100.20	1997	30/20bp	Daiwa Europe
LIRE						
European Inv.Bk.(a)†	500bn	11.25	101.875	2002	1.875/1.25	BCI
SWISS FRANCS						
ENAG(b)†	100	7.25	100.25	2003	-	Credit Suisse

**Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. †Final terms. a) Non-callable. b) Callable at par after nine years. c) Coupon pays 35bp below the offered side of the 5-year Yen Interest Rate swap against the 6-month Yen Libor and payable semi-annually. Non-callable.

Turn of UK investors to support gilts programme

Simon London on changes in funding patterns

DESPITE anecdotal evidence to the contrary, domestic institutions rather than overseas investors are now supporting the UK government's borrowing programme.

With a forecast public sector borrowing requirement of £32bn, net issues of gilt-edged securities are likely to reach at least £27bn by March 1993. Many analysts expect net issuance to top £30bn as the economy deteriorates through the second half of this year.

Substantial overseas buying is required to support new issuance of gilts on this scale. UK investment institutions – mainly pension funds and life insurance companies – are expected to receive cash inflows of around £28bn this year. Historically, they invest less than 10 per cent in sterling bonds.

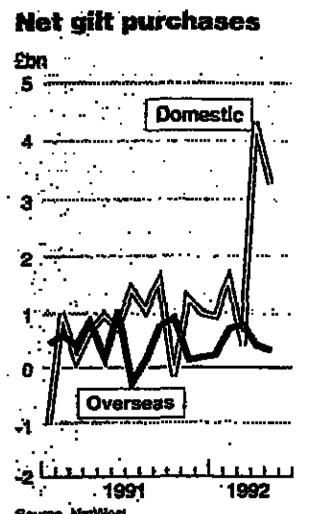
The evidence of 1991 suggested the international appetite for sterling bonds was strong. With sterling linked within the European exchange rate mechanism, the currency risk of holding sterling bonds is reduced for a continental European investor. Overseas buyers took £6bn gilts in the course of the year, against £9bn sold to UK investors.

The pattern continued in the first quarter of this year. Overseas buyers took £1.8bn, domestic investors £3.1bn.

However, since the UK general election on April 9, the official statistics have tilted in favour of UK investors. Gilts sales to domestic investors totalled £7.6bn in April and May, against just £836m to overseas investors.

Analysts point out the statistics are not wholly reliable. Mr Peter Fellner, analyst at NatWest Capital Markets, estimated a £100m monthly margin of error. For example, overseas funds managed by a UK fund manager may be booked as a domestic sale.

Net gilt purchases



Source: NatWest

The pattern of buying in April and May has also corrected an imbalance accumulated in the run-up to the election.

"UK institutions went into the election very short of gilts," commented Mr John Kendall, UK economist at Barings. "We saw a correction in the weeks after April 9."

The correction has been accentuated by the Bank of England's decision to issue long-dated gilts, which do not usually attract overseas buying. The last auction, £2.75bn stock maturing 2012, underlined the strategy.

Analysts link overseas buying of gilts to the position of sterling within the ERM. Although the mechanism has moderated the risk of wild fluctuations in the pound's value, investment returns are still subject to currency risk while sterling is within a wide 6 per cent divergence band.

With sterling trading above its DM2.95 central rate, continental European investors see little incentive to buy gilts. When sterling is near the bottom of its permitted ERM bands – as it was in the first quarter of the year – currency risk is far less.

On this argument, overseas buying will return if sterling falls on the foreign exchange markets. The danger is that the weakness of sterling is now kindling speculation about a devaluation within the ERM. This could discourage overseas buyers.

The behaviour of domestic institutions partly reflects the poor performance of equities. However, there is little evidence of switching out of shares and into gilts.

According to gilts traders, most bond purchases have been funded out of new money – other than some modest switching into index-linked gilts when guaranteed real yields were around 4.25 per cent.

There is plenty of scope for purchases of gilts before portfolio weightings are even back to the levels of 1980. For example, the average pension fund had around 20 per cent in gilts in 1980 including index-linked paper, against around 7 to 8 per cent currently.

Study highlights lack of knowledge

By Barbara Durr in Chicago

GLOBAL fund managers lack knowledge of risk management instruments and are hesitant to use them, according to a survey by the Philadelphia Stock Exchange (Phlx).

The study found that US fund managers have a poor understanding of sophisticated currency risks, while their European colleagues are not confident about their knowledge.

European money managers are more likely to hedge currency risks than their US counterparts. Nearly two-thirds of European money managers questioned said they hedged, while less than one-third of US managers did so.

This is partly explained by the fact that almost half of the European managers have 50 per cent or more of their holdings in foreign assets. Only 16 per cent of US equity fund managers and 31 per cent of US fixed-income fund managers have portfolios with more than 50 per cent in foreign assets.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on July 13

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABN 9 1/8 94	200	107	107¼	-⅛	5.42
ALBERTA PROVINCE 9 3/8 95	600	110¾	111¼		5.68
AUSTRIA 8 1/2 00	400	108¼	108⅝	-⅛	7.04
BANK OF TOKYO 8 3/8 96	100	106	106½	-⅛	6.49
BELGIUM 9 5/8 98	250	113⅝	114	-⅛	6.78
BFCE 7 3/4 97	150	105⅝	106⅛	+⅛	6.30
[illegible]					

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
BAYERISCHE VEREINS INT 7 94 LFr	600	94⅞	95⅝		9.99
COPENHAGEN TEL 8 5/8 96 LFr	600	98⅝	99⅝		9.16
WORLD BANK 8 96 LFr	1000	96⅞	97⅞		8.99
ENERGIE BEHEER 8 3/4 98 Fl	500	102⅝	103⅛	+⅛	8.19
UNILEVER 9 00 Fl	500	105	105⅝	+⅛	8.12
[illegible]					

DEUTSCHE MARK STRAIGHTS; SWISS FRANC STRAIGHTS; YEN STRAIGHTS; FLOATING RATE NOTES; CONVERTIBLE BONDS: [illegible]

* No information available - previous day's price. † Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	3	71	8
Other Fixed Interest	3	8	4
Commercial, Industrial	166	404	869
Financial & Property	113	186	495
Oil & Gas	12	23	51
Plantations	0	4	5
Mines	26	48	75
Others	19	42	73
Totals	342	786	1,580

LONDON RECENT ISSUES

EQUITIES: [illegible]

FIXED INTEREST STOCKS: [illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price p	+ or -
330	Nil	10/8	45pm	9pm	BSS	10pm	
8	Nil	13/7	¼pm	¼pm	Betacom	¼pm	
205	Nil	19/8	42pm	32pm	Claremont Garments	33pm	
82	Nil	1/9	¾pm	¾pm	Capid 10p	¾pm	
55	Nil	26/8	13pm	13pm	#Dudley Jenkins	13pm	
69	Nil	21/8	2pm	1¼pm	Monarch Res Units	2pm	
8	Nil	20/7	1pm	½pm	#Oliver	½pm	

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. q Earnings based on preliminary figures. u Forecast or estimated annualised dividend rate, cover based on previous year's earnings. x Ex-dividend. F Dividend and yield based on prospectus or other official estimates for 1992-93. H Dividend and yield based on prospectus or other official estimates for 1991. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1992. N Dividend and yield based on prospectus or other official estimates for 1991-92. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Offered to holders of ordinary shares as a "rights". ı Introduction. § Placing price. †† Reintroduction. ‡ Unlisted securities market. ♦ Issued in connection with reorganisation, merger or takeover. pm Price at a premium. ♦ Units comprising 1 Ord and 1 Zero Div Pref share.

LIFFE EQUITY OPTIONS

Option		Calls Aug	Calls Nov	Calls Feb	Puts Aug	Puts Nov	Puts Feb
Shell Trans. (*481)	460	23	36	44	1	11	13
	500	2	13	23	20	33	35
Storehouse (*129)	120	10	18	21	1	4	6½
	130	5	12	16	4½	8	10
Trafalgar (*90)	90	6½	16	19	5½	13	16
	100	3	13	15	13	19	24
Utd. Biscuits (*349)	330	20	33	39	1½	7	9½
	360	4	15	22	13	22	24
Unilever (*938)	900	42	73	89	34	14	22
	950	8	42	58	18	35	42
Amstrad (*32)	30	6	7½	8½	2½	3½	5
	35	3½	4½	6	5	7	7½
	40	2	3½	4½	9	10½	11½
Barclays (*316)	300	22	30	36	9½	14	19
	330	7	15	21	28	31	37
	360	2½	7	11	54	56	58
Blue Circle (*208)	194	23	28	-	6½	10	-
	213	11	18	-	16	19	-
British Gas (*250)	240	18½	22	27	4½	11	13
	260	8½	12½	17	15	22	23
Dixons (*198)	180	28	35	40	4½	7	9½
	200	12	22	28	12	15	18
Brit Aero (*247)	220	34	45	55	7	17	23
	240	20	32	45	14	27	33
	260	12	24	32	25	37	48
Eurotunnel (*332)	330	32	48	60	25	33	38
	360	18	36	46	44	53	57

Other series: [illegible]

FT-SE INDEX (*2476)	2300	2350	2400	2450	2500	2550	2600	2650
CALLS Jul	178	128	78	29	6	1½	1	½
Aug	187	143	102	67	40	21	10	5
Sep	203	163	123	92	65	33	26	15
Oct	220	178	145	114	84	62	42	30
Dec	257	-	183	-	122	-	75	-
Jun †	330	-	260	-	200	-	150	-
PUTS Jul	1	1½	3½	11	36	83	133	183
Aug	7	13	23	38	64	97	137	186
Sep	13	21	33	52	76	107	143	187
Oct	20	28	43	63	85	117	148	190
Dec	28	-	55	-	100	-	160	-
Jun †	60	-	85	-	125	-	180	-

July 13 Total Contracts 20,602. Calls 11,779 Puts 8,823. FT-SE Index Calls 3,240 Puts 3,469. Euro FT-SE Calls 901 Puts 619. Eurotrack 100 Index Calls 0 Puts 0. *Underlying security price. † Long dated expiry months. Premiums shown are based on middle prices.

TRADITIONAL OPTIONS

● First Dealings July 6
● Last Dealings July 17
● Last Declarations Oct. 1
● For settlement Oct. 12

3-month call rate indications are also shown on this page.

Calls in ASDA, Cluff Res., D C Gardner, Forte, Hartstone, Mining & Allied Supplies, News Intl., Ossory Ests., Transfer Tech. and Tullow Oil. Puts in Grand Met and Pentos. Put and call in Fisons.

TRADITIONAL OPTION 3-month call rates

	p
■ INDUSTRIALS	
Allied-Lyons	49
Amstrad	6
Astec (BSR)	3
BAT Inds	58
BOC	53
BTR	35
Barclays	29
Blue Circle	24
Boots	34
Bowater	60
Brit Aerospace	28
British Steel	7
BT	25
Cadburys	38
Charter Cons.	37
Comm Union	34
Courtaulds	43
Eurotunnel	32
FKI	6
FNFC	7
Forte	19
GKN	33
Gen Accident	38
GEC	17
Glaxo	52
Grand Met	38
GRE	13
Hanson	18
ICI	95
Ladbroke	18
Legal & Gen	29
Lex Service	22
Lloyds Bank	32
Lonrho	12
Lucas Inds	12½
Marks Spencer	27
Midland Bank	30
NatWest Bank	26
P & O Dfd	37
Racal Elect	5½
RHM	18
Rank Org	55
Ratners	3
Reed Intl	44
Sears	8½
SmKl Bchm A	60
TI	55
TSB	11½
Tesco	22
Thorn EMI	63
T & N	11½
Unilever	70
Vickers	15
Wellcome	75
■ PROPERTY	
Brit Land	18
Land Sec.	30
MEPC	26
Mountleigh	1½
■ OILS	
Aviva Pet	25
BP	18
Burmah Castrol	48
Conroy Pet	6½
Gaelic Res	½
Premier Cons	2¾
Shell	35
Tuskar Res	½
■ MINES	
RTZ	47

US buy helps Tomkins to £132m

By Richard Gourlay

TOMKINS, the industrial conglomerate, reported an 18 per cent increase in full-year profits to £132m owing to the increased contribution from Philips Industries of the US which it bought in 1990.

Mr Greg Hutchings, chief executive of the company whose interests include bathroom fittings, reinforced shoes, Smith & Wesson hand-guns and mechanical valves, said that while there were no signs of any turnround in the UK, Tomkins had a low cost base and high level of operational gearing which meant it would benefit strongly from the end of recession.

Pre-tax profits in the year to May 2 rose from £112m to £132m on sales 22 per cent ahead at £1.27bn. Earnings per share increased by 5 per cent to 27.63p. An increased final dividend of 8.12p (7.06p) is recommended, to give 11.34p for the year, up 15 per cent.

Tomkins has not made any substantial acquisitions since Philips and does not need another sizeable acquisition to meet its target of out-performing the UK market in earnings per share growth, he added.

The group ended the year with cash balances of £110m, up from £46m. This was achieved by squeezing cash from working capital at Philips and strong cash generation from its operating companies.

Capital expenditure of £25m during the year fell below the depreciation charge of £29m, although another £14m had been approved and not spent.

The results highlighted the benefits of the Philips acquisition, not only in terms of cash generation but also in having a spread of activities.

At the operating level Philips, which is now fully integrated and called Tomkins Industries, contributed about £50m. This was almost double the contribution in the 8¾ months for which it was consolidated the previous year.

In particular, it had a surprisingly strong second half because US housing starts grew substantially faster than expected and sales of recreational vehicles increased.

The group also continued to enjoy strong growth in bicycle sales in the US, partly as a result of the weak dollar and import substitution, and also increased the exports of mowers to an all time record.

Mr Ian Duncan, finance director, said Tomkins had found many of Philips' operational managers were of good quality, but there was sloppy financial control, too much stock and antiquated computer systems.

The group's dependence on the US, which accounts for about 70 per cent of sales but less pre-tax profits, has raised the possibility that it could hit an advanced corporation tax problem in the UK.

See Lex

Tony Andrews

Greg Hutchings: no need for another acquisition to help meet earnings targets

MFI gets applications for 44% of shares

By Maggie Urry

MFI FURNITURE Group, the kitchen and bedroom retailer, received applications for about 44 per cent of the 137m shares sold through the public offer portion of its flotation.

However, of these, applicants for 29 per cent were sub-underwriters who could offset applications against their underwriting commitment. That leaves only a 15 per cent take-up from outside buyers.

The group also placed 410.2m shares with institutions, and County NatWest, the bank sponsoring the float, said that 86 per cent of the shares available were placed or applied for in the offer.

A final figure for applications will be announced on Wednesday, share certificates will be posted on Thursday and dealings are due to start on Friday.

Brokers expect an opening price of about 105p compared to the 115p issue price.

WPP board issues ultimatum over the company's future

By Maggie Urry

SHAREHOLDERS in WPP, the marketing services group, have been offered a choice between supporting a capital restructuring or being left with little or no value to their shares.

The choice was put to them in a circular posted yesterday by the board. The proposals will be put to a shareholders' meeting on August 5.

The circular also estimates profits of £14.2m for the six months to June 30 before tax and exceptional items, compared to £13m in the first half of 1991.

Exceptional charges of £12.7m (profits £3m) cut profits to £1.5m (£16m).

The charges include £13.5m of costs relating to the restructuring offset by asset sale profits of £800,000. Another £4.6m of restructuring costs are being charged to the balance sheet.

Mr Martin Sorrell, chief executive, said the profit figures represented a slight improvement though there was no significant upturn in economic activity.

The circular urges shareholders to approve the plan. If it is not passed it will constitute "an event of default" leaving WPP dependent on the support of its bankers. If this is forthcoming it is likely to be at terms which leave little or nothing for shareholders. If bankers refuse their support WPP said that shareholders would be left with nothing.

The plan involves the issue of 239.5m convertible shares at 60p each, raising $272m (£143m). These shares will be bought by 24 banks in WPP's banking syndicate. Proceeds will be used to repay about a quarter of the group's $1bn debt.

Among banks subscribing to the issue are Bank of New York, which will buy £11.2m-worth of the new convertible shares and have a 4 per cent stake in WPP afterwards, Barclays, putting up £9.2m, and Midland, buying £8.8m worth.

Existing WPP shareholders can subscribe for new ordinary shares also at 60p, at a rate of 1,050 new shares for every 1,000 ordinary held already. To the extent that shareholders subscribe, the issue to the banks will be reduced.

Holders of WPP's existing convertible preference shares are being offered conversion into ordinary shares at a rate of 750 ordinary for every 1,000 convertible preference shares held and can also subscribe to the new issue. Their stake in the group would increase from 23.1 per cent to 31.8 per cent after the banks put in the new equity, without putting up any new money.

The circular gives details of the banking arrangements. WPP had net debt at June 22 of £490.2m. An existing multi-currency term facility for $430m and a working capital facility of $217m would continue after the restructuring and a bridge facility of $150m has been set up, which WPP has already begun to use.

The banks have agreed to delay debt repayments due from 1993 onwards, with little to pay until 1997. The new facility will have to be repaid by making disposals or issuing shares.

Interest on the existing facilities will accrue at 2 per cent above London Inter-bank Offered Rate on the portion drawn, the rest paying a 1 per cent commitment fee. The bridge facility will accrue at Libor plus 2 per cent rising in steps after July 1 1992 to 4 per cent over Libor. The undrawn portion will also pay a 1 per cent fee. The banks will be paid a fee of 1 per cent of the existing facilities left after the convertible issue and a 2 per cent fee on the bridge facility.

See People

Postel agrees to accept offer for Boustead

By Richard Gourlay

Postel, the Post Office and Telecommunications pension fund, has given irrevocable undertakings to accept the recommended offer for Boustead, the trading company, from Jack Chia-MPH, the Singapore-based investment company.

The institution agreed to accept the tender of chairman Mr Jack Chia's offer which should lead to him taking majority control and using Boustead's London quote for the European expansion of his group.

The offer comes in two parts – 38p for the first 60 per cent of Boustead shares held and 20p for the remainder. At the average price, the bid values Boustead at £20.2m and each share at 30.8p, some 2.3p above yesterday's unchanged closing price.

Ellis & Everard hit by weak prices

By Angus Foster

ELLIS & EVERARD, the chemicals distributor, yesterday announced a fall in profits despite an increase in turnover, as margins in the UK and US continued to come under pressure.

"It hasn't been the easiest of years," said Mr Stephen Bentley, finance director.

Pre-tax profits fell from £17.5m to £12.6m as chemical prices remained weak, especially in the US. At the interim stage turnover increased 10 per cent to £198m while profits fell 29 per cent to £7.5m.

Preymer (Spain), a 70 per cent owned subsidiary, the acquisition of which in 1990 marked the company's entry into continental Europe, continued to disappoint and incurred a small loss.

But turnover increased to £383.4m (£357.9m), helped by acquisitions and the dollar exchange rate. In dollar terms, US turnover increased only 2.8 per cent while in sterling terms it increased 9.2 per cent.

Gross profits increased to £90.6m (£86.9m). But higher administrative expenses, including £1m of rationalisation costs, dragged operating profits down from £18.3m to £14.2m.

Net borrowings fell from £15.6m to £9.1m at the end of the period with gearing at 14.3 per cent (25.4 per cent). But interest costs increased, partly due to short term cash flow needs, to £1.7m (£900,000).

Earnings per share fell to 11.5p (15.9p). An unchanged final dividend of 4.8p is proposed to make a maintained total of 7.05p.

● **COMMENT**

Despite the obvious parallels with MTM, Ellis & Everard's profits decline was expected and the company has not been been dogged by questions about its accounting practices. Trading this year has already shown some improvement, especially from the swimming pools division which benefited from a warm spring. Nevertheless, the chairman's departure cannot help the share price of a company which could still be some way from recovery. Although this year's results will be helped by cost savings and will not be held back by discontinued businesses, last year's exchange gains will probably be reversed and margin recovery in the UK and US may take time. Forecast profits of £15m put the shares on 13.3 times, which is not expensive relative to the sector. But until the controversy dies down, and a successor to Mr Marshall found, the shares may go sideways at best.

Regalian sells Southwark asset for £5m below its book value

By Andrew Jack

REGALIAN PROPERTIES, the UK property company, yesterday announced the sale of Red Lion Court, a large office building situated on the Southwark riverside, for nearly £5m less than its book value.

The 128,000 sq ft building, adjacent to the Financial Times editorial offices, was sold to an unnamed German investment company for £38.25m cash, compared with a book value of £43m.

Mr Robert Perdeaux, finance director, said: "We're not happy, but that is the market price today. There was a lot of interest and that was the best we could do."

He said the company either had to sell or wait an indeterminate amount of time for the hoped-for recovery in property prices.

Regalian will use the proceeds of the sale to reduce its borrowings from £130m at the end of the last financial year.

It has also generated nearly £12m from the sale of other commercial properties since that date.

Mr Perdeaux confirmed that Red Lion Court was the last commercial property asset providing income for Regalian, but said the company still generated a "fair cashflow" from residential property.

The property is let to Lloyds bank with 23 years remaining on the lease at £34 per sq ft. Regalian said the sale will create no tax liabilities, and the contract will be completed by the end of August.

● Weatherall Green & Smith, the chartered surveyors, has reduced the Law Society's rent in Chancery Lane from £690,000 a year in 1986 to £454,000 from November last year.

That has reduced the rent by £10 to £17.50 per sq ft, as a result of the independent expert determination permitted under an rent review clause in the contract for the property.

See Lex

CU acquires control of Australian insurer

By Richard Lapper

COMMERCIAL UNION, the composite insurer, is stepping up its involvement in the Australasian market by paying £23m to increase its interest in National Commercial Union, Australia's third biggest non-life insurer.

CU already owns 45.67 per cent of the company and will increase its stake to 71.35 per cent by acquiring over half the shares currently held by The National Mutual Life Association of Australasia.

Mr Peter Foster, general manager finance, said that the price of A$1.28 (50p) for 46.5m shares was attractive and marginally below net asset value.

CU will finance the deal by issuing new shares.

Although a number of other UK companies have recently reduced their involvement in Australasia, CU's timing was influenced by evidence that the insurance cycle is beginning to turn.

The company has a long standing involvement in the region, forming a listed company, CU of Australia, in 1960 which in turn became NCU in 1982.

NCU's net pre-tax profit in the 12 months to June 30 1991 amounted to A$11.8m on net written premium income of A$550m. Profits in the six months to December 31 amounted to A$14.6m. Net assets amounted to A$243m.

Stakis sells Aviemore leisure complex

By James Buxton

STAKIS, the hotel and healthcare group, has sold the Aviemore Centre, a leisure complex in the Scottish Highlands, to Berkeley de Veer, an unquoted investment company based in Sheffield.

The sale is part of Stakis's disposal programme which is aimed at reducing its £200m debt and slimming the company to its core businesses of hotels, casinos and healthcare.

The sale, the value of which is not disclosed, involves 100 acres in Aviemore and includes a conference centre, timeshare complex and development land.

However, it does not include the Four Seasons and the Badenoch hotels which Stakis will continue to operate, as well as the Coylumbridge hotel three miles away.

Stakis bought the Aviemore centre and the hotels from House of Fraser in 1986 for £800,000 and had plans to modernise the entire complex. But it never had the money to proceed with its plans.

In May it was expected that Stakis would sell the Aviemore centre to Co-ordinated Land and Estates, the property company to which it has also entrusted the management and disposal of its commercial property portfolio.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Ellis & Everard ....fin	4.8	Oct 6	4.8	7.05	7.05
Matthew Clark ....fin	9.25	Oct 6	8.25	15.75	14
Tomkins ....fin	8.12†	Oct 9	7.06	11.34	9.86

Dividends shown pence per share net except where otherwise stated. †On increased capital.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Beckenham, CMW, Eurotherm, Low & Bonar, Miskin.

Finals- Birse, Bucknall, Helton, Morris Ashby, Nobo, Pelican, Prism Leisure, Sterling Publishing, Triplex Lloyd, Wood (John).

FUTURE DATES

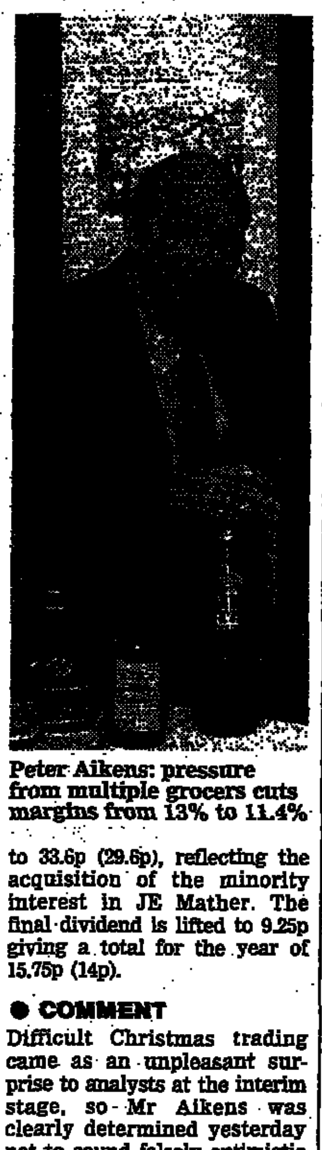
Interims-

BICC	Aug. 18
Castle Cairn Inv Trust	July 16
Harrisons & Crosfield	July 30
River & Mercantile Trust	July 16
Sphere Inv Trust	July 29
Thornton Asian Emerging	July 30
Thornton Pan European	July 28
Throgmorton Trust	July 17
Transport Development	Aug. 3
Finals-	
Assoc Brit Consultants	July 22
CRT	July 20
Dale Electric	July 30
Gibbs Mew	July 20
Goode Durrant	July 16
Jaques Vert	July 17
Kewill Systems	July 23
London Merchant Secs	July 23
SEET	Aug. 7
Wood (SW)	July 22

COMPANY NEWS: UK

Matthew Clark declines 19% to £4.55m

By Andrew Bolger



Peter Aikens: pressure from multiple grocers cuts margins from 13% to 11.4%

CONTINUING recession and reduced margins were blamed by Matthew Clark, the wine and sherry producer and drinks distributor, for a 19 per cent drop from £5.62m to £4.55m in annual pre-tax profits.

The outcome was struck after exceptional charges of £249,000 (£111,000) relating to restructuring and abortive acquisition costs.

Sales of continuing businesses increased by 6 per cent to £39.9m in the year to April 30, boosted by new contracts and some trading down by consumers.

However, Mr Peter Aikens, chief executive, said pressure from multiple grocers and cash-and-carry chains had been unrelenting, squeezing the margin from 13 per cent to 11.4 per cent.

Mr Aikens said the group felt profit margins could not fall much lower, but he was not counting on any upturn in the UK economy before next April.

The company said it had gained significant share in the British sherry market during the year. This had been complemented by the launch of a premium range of Stone's sherries, capitalising on the strength of its ginger wine brand.

Among its agency brands, sales of Taittinger were down 45 per cent in a depressed champagne market. Grand Marnier gained market share in the shrinking liqueurs sector while De Kuyper maintained its position as the most widely distributed cherry brandy.

Clark paid £11m for Strathmore, the Scottish bottled water brand, just after the April year-end.

Mr Aikens said: "The coming year will be one of consolidation, ensuring that both Strathmore and the company as a whole are well placed to develop the markets that we are addressing."

A new joint venture had begun with Inver House Distilleries to market and sell its Scotch whiskies, gin and vodka. The company's sales force had been reorganised to concentrate on key accounts and wholesalers.

Earnings per share increased to 33.6p (29.6p), reflecting the acquisition of the minority interest in JE Mather. The final dividend is lifted to 9.25p giving a total for the year of 15.75p (14p).

● COMMENT

Difficult Christmas trading came as an unpleasant surprise to analysts at the interim stage, so Mr Aikens was clearly determined yesterday not to sound falsely optimistic about what is clearly a tough market. His strategy of moving away from the low-margin multiples to supplying pubs, hotel and restaurants makes sense, as does the focus on selling to wholesalers, rather than individual outlets. The company will concentrate on bedding in Strathmore, not least because other possible acquisition targets are only available at fancy prices. Forecast pre-tax profits of £5.2m put the shares, down 4p yesterday to 450p, on a prospective multiple of 12.5. The shares rose strongly after the Strathmore deal was announced, and seem fairly valued until the benefits of that purchase are confirmed.

Playing a variety of roles in natural resources

Peggy Hollinger and Kenneth Gooding investigate the investment career of Clive Smith

Clive Smith: no stranger to litigation

MR CLIVE SMITH, the Midlands entrepreneur known for his involvement in the flotations of several natural resource companies in London in the 1980s, is no stranger to litigation. Two legal actions have been taken out against him in the last six months.

Mr Smith has been involved in companies such as Butte Mining, Geevor, Petranol, Richmond Oil & Gas and Globe Petroleum, formerly called Far East Resources.

The Serious Fraud Office has launched an investigation into two, Richmond and Butte, following a raid on the offices of Bryant & Co, a Jersey accountant which once managed some of Mr Smith's offshore interests.

A self-made millionaire, Mr Smith played various roles in the resource companies, from shareholder to board executive, and even chairman.

The degree of his involvement in many of these companies is unclear, as virtually all of his interests are held in offshore trusts. "My entire affairs are dealt with offshore by different administrators," he said yesterday.

The share prices of all but one of these resource companies have collapsed, hit by a variety of factors from failed ambitions to the sharp decline in fuel and mineral prices. The exception was Petranol which was taken over by Mr Hubert Perrodo, the French investor, and renamed Concorde Energy.

The first piece of litigation to come to light in recent months concerned Butte Mining, which Mr Smith helped to float in 1987. The latest relates to the Big Sinking Field, a Kentucky oil property which was eventually sold to Globe Petroleum, a UK company in which Mr Smith was an investor. Globe has been suspended at 4¼p since March.

On March 13 1991, Sun Glow Joint Ventures of the US sold the Kentucky property to Proctor Investments, which is registered in the British Virgin Islands, for $2.3m (£1.2m) in cash and Globe shares.

Proctor's ultimate ownership is unclear, but Mr Smith actively negotiated the purchase. He also personally guaranteed Proctor's promise to buy back a $450,000 tranche of the Globe shares.

Proctor failed to do so and Sun Glow is seeking payment from Mr Smith. He is contesting the legal action and last night said Proctor "is certainly not connected to me". However, he added that with so many interests overseas, it was difficult even for him to remember all the details.

Immediately after the purchase, Proctor transferred the field to Kingsway, another British Virgin Islands company, which had been formed four months earlier and owned just one other, smaller asset in Texas.

Globe agreed to buy Kingsway for $19.5m on March 27, just two weeks after Proctor had paid $2.3m for the Sinking Field. The next day, a prospectus for Globe's full stock market listing valued the Kentucky reserves at $26.7m and the Texas asset at $4.5m.

The prospectus does not mention Mr Smith's role in the transaction, although he was a Globe shareholder through Supernal Services, his Jersey-based vehicle, and his two daughters were also investors, or the price which Proctor originally paid for the assets.

Five months after the sale to Globe, the company's auditors, Moore Stevens, expressed concerns that Mr Smith "may, in effect, exercise such influence as to be deemed a shadow director of the company within the definition of the Companies Act". Their anxieties were communicated in a letter addressed to Mr Michael Plant, managing director.

Mr Arthur Davy, who was in charge of the Globe account at Moore Stevens, said last week he had not been aware of Mr Smith's association with Proctor at the time of the transaction.

Mr Smith's past has been the subject of some controversy in the City of London. He left Petranol, the resources group where he had been chairman, in April 1986 but kept his 25 per cent shareholding.

In May, the Takeover Panel ruled that Mr Smith had been working in concert with a hostile predator, Inoco, which was bidding £21m in shares for Petranol. The Panel ordered Inoco to include a cash element in its offer, but instead it dropped the bid.

Mr Roger Jeffries, an Inoco director and known to Mr Smith from the days of Petranol's flotation, subsequently resigned. Mr Smith said he had no idea at the time that Mr Jeffries was on the Inoco board.

In 1987 Mr Jeffries helped to bring Far East Resources to the market, eventually becoming a director of the company. Mr Jeffries also held a wide range of natural resource interests, including stakes in Richmond and Butte.

Mr Smith is also currently contesting US litigation by Butte, which claims damages of $325m (£184m) from about 70 individuals and companies. Butte is alleging fraud, and misrepresentation on the part of various defendants, involving, among other things, the purchase of US assets. Butte is also asking for damages to be trebled under US anti-racketeering legislation.

When the allegations were first made in May, Mr Smith said: "I have never been involved in any racketeering. Any claims are frivolous." He said his family's shareholding in Butte remained at the same level as when the company was floated in 1987, some 19m shares.

Butte shares were placed at 100p each in 1987, rose to 140p in 1988, but subsequently collapsed. Last night they languished at 2p each.

Among the many allegations made by Deutsch and Frey of New York, Butte's contingent-fee lawyers, is that in 1986 Butte paid £51m, mainly in shares then priced at 125p each, for a company whose sole asset in Montana, had cost $90,566 only a short while before.

No trial date has yet been fixed but Butte believes the case might reach court at the end of 1993.

In 1987, Mr Smith's Supernal Services took a 26.5 per cent shareholding in Geevor, the Cornwall tin miner with an 85-year history and a London quote. Supernal paid 125p a share. Mr Smith sold a 9 per cent stake to Mr Eric Grayson, formerly of Burnett & Hallamshire, who moved in as chairman with plans to turn Geevor into an international mining group.

After Mr Grayson's arrival Geevor bought coal mining assets in the US and the UK, but they failed to live up to expectations. New management was installed in the middle of 1990.

However, attempts to revive Geevor foundered early last year when its bank, the Canadian Imperial Bank of Commerce, withdrew the mining company's facilities. Geevor's shares were suspended at 4¾p in January. Attempts have since been made to rescue the company via a reverse takeover.

Mr Smith has also been linked to Richmond Oil & Gas, where creditors recently foreclosed on the last of the main assets it had when it came to the market in June 1989.

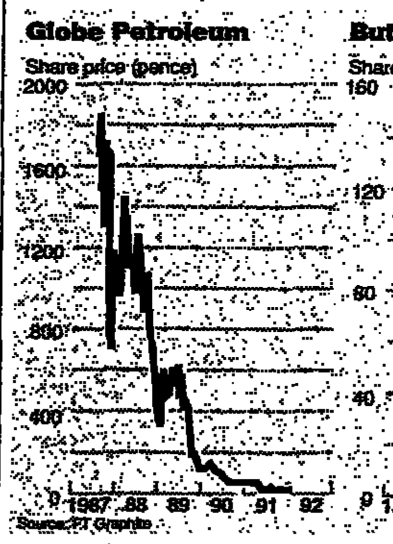
Floated at 105p, Richmond's public offer was a failure, when would-be investors questioned the valuations of Texas assets purchased for about $2m and valued in the offer documents a month later at $30m. Only 12.2 per cent of the shares were taken up. Immediately following the flotation, 30 per cent of Richmond was held by companies registered in Liberia.

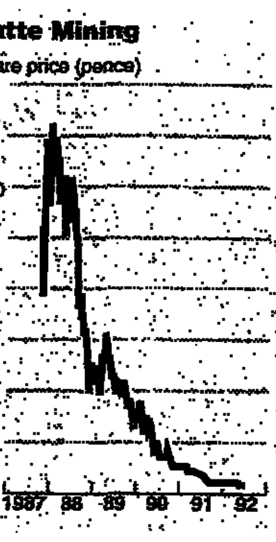
Richmond has suffered a series of mishaps since flotation, including the abandonment of a property in Louisiana, a dispute over the Texas assets, and a failed £31m rights issue in October 1990, when 25 per cent of the issue was left with underwriters, County NatWest, and brokers Girozentrale Gilbert Elliott.

The shares, which were 173p in 1990, closed at 7p last night. Richmond's main remaining assets are two joint ventures, one in Siberia and another on Apache tribal lands in New Mexico.

Richmond's broker at flotation, Corporate Broking Services, of which Mr Smith held 11 per cent, went into liquidation last year. It also acted as broker to Geevor and Globe.

Other directors of CBS were Mr Jeffries, and Mr David Wilkinson, joint managing director of Richmond. Mr Wilkinson, a former director of Butte and Far East Resources, is also named in the Butte litigation.





Source: FT Graphite

East German Investment net asset value ahead

By Graham Deller

THE EAST German Investment Trust reported a net asset value of DM2.81 (96p) as at June 30 1992.

The outcome compared with asset values of DM2.78 12 months earlier and DM2.71 at the December 31 year-end.

The trust, which concentrates its portfolio in unquoted companies located or operating in the former east Germany, came to the market in February last year following a placing by County NatWest and Berliner Bank.

Net revenue for the six months to end-June dropped from DM1.67m to DM904,000.

Earnings per share emerged at DM0.019, down from DM0.042 last time.

During the period under review, the trust invested DM54m in a further eight investments across a broad range of activities including white goods, television operations, property development, laboratories and building products.

This lifted its total investment to some DM86m across 13 unquoted companies – representing 55 per cent of total assets.

Cocoa prices slip back from 2½-month highs

By Richard Mooney

PROFIT-TAKING halted the London cocoa futures market's bull run yesterday after speculative and trade buying had pushed prices to fresh 2½-month highs.

Early dealings saw a continuation of the almost uninterrupted uptrend that had lifted the September position from the 16½-year low of £509 a tonne reached on June 25. But the profit-taking began when the £632-a-tonne level was reached and by the close the September position was just £2 up on the day at £616 a tonne.

There were also unconfirmed reports of modest sales by producers, whose resolute absence from the market over the past few weeks had helped to sustain the upward move.

However, just as they had been reluctant to write off the preceding downtrend when prices began rising in late June, dealers were unready yesterday to administer the last rites to the recent bull run.

Chart patterns still looked constructive, they said, following the breach during the morning rise of last week's September position high of £622 a tonne.

The coffee market followed a similar pattern, with London's September robusta futures position climbing to a 2-month high of $791 in the morning. But volume was very thin and when selling began the market quickly moved into the red. By the close, September coffee had slipped back to $760 a tonne, down $16 on the day.

India's tea crop likely to decline

By Kunal Bose in Calcutta

INDIA, THE world's biggest tea producer, is likely to harvest a crop of 730m kg in the current year, compared with 741.7m kg in 1991, when production increased by 27m kg.

In its annual review, J. Thomas & Company, the tea auction house, says that while north India could match last year's crop of 556.7m kg, a big production shortfall in the south Indian estates is feared.

According to the review, India is unlikely to find export markets for more than 200m kg of tea, against 203m kg last year, following the disintegration of the Soviet Union, which used to account for more than half its overseas sales.

India has signed tea export protocols with Russia, Kazakhstan and Uzbekistan for a total of 65m kg. But the review says: "It is possible that the Commonwealth of Independent States [the former Soviet Union] may import similar quantities as in the previous year from the world market, with Indian teas comprising a major share, but Indian exports to the CIS are unlikely to be as dominant as in 1991."

J. Thomas believes, moreover, that Russia and the other former Soviet republics will be operating in lower price bands than in earlier years.

The situations in Iraq and Yugoslavia add to India's concerns. The UK, Germany, Poland, Iran, Egypt and Japan are, however, expected to buy more Indian tea this year. As for prices, the review says that good quality CTC (cut, tear and curl) and orthodox teas should be commanding healthy premiums, while poorer orthodox as well as plain and medium CTC "may fall into a high risk area due to more subdued operations by the CIS".

In view of the disposition of quality conscious Indian consumers to pay "premiums for good CTC teas", J. Thomas recommends that the industry should concentrate on the production of quality tea to remain viable. Unlike the other tea producing countries, India has a huge domestic market for tea, of some 539m kg last year.

The sharp widening of the price differential between good and plain categories since last year will encourage gardens in general to improve their agricultural practices.

According to J. Thomas, Indian gardens are likely to concentrate on the production of CTC tea, since no one is sure of the support to be lent to orthodox tea by Russia and the other republics. Indian green tea production will, however, remain at about 8m kg.

Cornish mine has '20 years of reserves'

By Kenneth Gooding, Mining Correspondent

CORNWALL'S SOLE surviving working tin mine, at South Crofty near Camborne, which was almost killed off last year, should be able to continue well into the next century, according to Mr Kevin Ross, managing director of Carnon Holdings, the mine's owner.

"We currently have 20 years of reserves and I am very confident that we can continue mining well into the future," he said yesterday.

South Crofty was now operating profitably following the recent strong rise in the international tin price, which has been at its highest level for 18 months, he said. The mine was not far off full break-even at present prices.

Mr Ross said break-even was at £3,750 to £3,800 a tonne. Last night tin for delivery in three months closed on the London Metal Exchange at $7,052.50 a tonne, equivalent to £3,715.

Mr Ross said South Crofty would produce about 2,000 tonnes of tin in concentrates this year – all of it sent for refining to the DKS smelter in Malaysia.

Carnon's Wheal Jane tin mine, near Truro, was killed off by the extraordinary low prices in 1990. In February last year it seemed that South Crofty was also doomed, when the UK government withdrew promised funding without warning and refused to pay the final £1.7m of a £24.7m interest-free loan.

Carnon had to make all its 415 employees redundant and covered the cost of redundancy payments and other outstanding debts by selling equipment from Wheal Jane, surplus land and processing 40,000 tonnes of stockpiled ore, most of it underground at South Crofty.

Some 205 volunteers came back to work on new contracts – everyone, including the managing director, worked for £4.25 an hour or about 60 per cent of the previous average wage at the mine – which so changed the economics that it became worthwhile mining again. As the tin price has risen, miners' pay has been lifted to "near the local average", said Mr Ross.

Carnon was bought by its managers from the RTZ Corporation, the world's biggest mining company, in March 1988. Managers shared 80 per cent of the equity and the rest was held in trust for employees. The company had a £10m interest-free loan from RTZ as well as the government loan.

In July last year, Carnon won outline planning permission for a £35m leisure centre on the Wheal Jane site. Mr Ross said this had been shelved until the property market improved, but Carnon was continuing to go through the planning process.

Ukrainian manganese deal agreed

AUSTRALIAN manganese producer Portman Mining says it has reached agreement with the Ukrainian government on a joint venture to expand a large underground manganese mine in southern Ukraine, reports Reuter from Perth.

Portman is to complete a feasibility study on the mine, at Stepnogorsk in the Bolshoy-Tokmak area of the Nikopol manganese basin, before entering a 55:45 venture to develop the project.

Mr Brian Johnson, Portman's executive director, said that total ore reserves of the Bolshoy-Tokmak deposit have been calculated at more than 1bn tonnes, making it one of the world's largest known manganese ore bodies.

Portman is to earn its 55 per cent interest in the venture by providing a plant with a capacity of 1m tonnes of ore a year.

It will also offer management, marketing and working capital to allow production to be expanded to 1m tonnes a year, from 250,000 tonnes at present, and will investigate the possibility of having the ore smelted at a ferro alloy smelter at Nikopol.

The processed ore is used as feedstock by ferro manganese alloy producers, mainly in Europe, Russia and China.

Mr Johnson said he would not disclose Portman's expected investment in the venture until it is formalised later this year. "But it is within the company's ability to finance the project from existing cash flow and it will not require external loans for development."

He added: "The Ukraine project should give Portman Mining competitive access to sections of the European manganese market as well as potential large volume sales to the Russian steel industry at a later date."

Crop breeders hail 'super cassava'

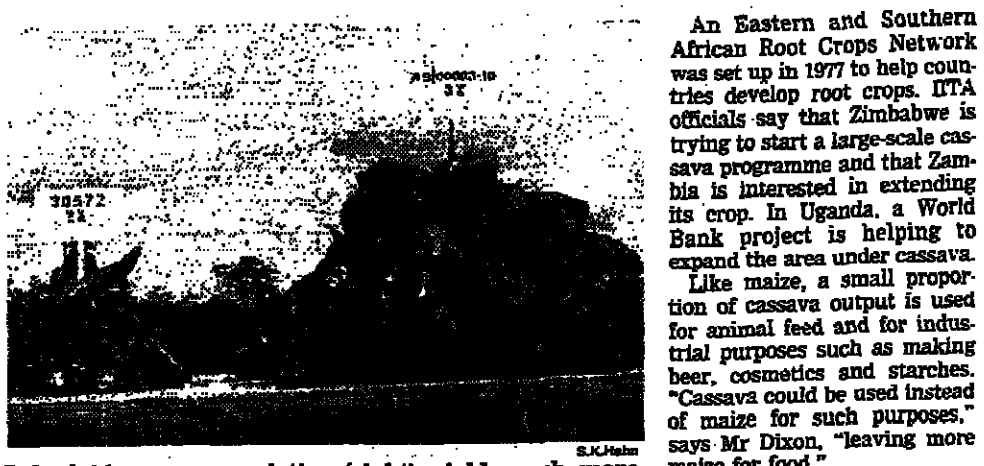
John Madeley on an advance in the fight against famine in Africa

CROP BREEDERS are calling it "super cassava". A breakthrough in the breeding of Africa's most widely grown staple food, cassava, has led to the development of a high-yielding variety which could survive in drought conditions and be the continent's most important hope for overcoming famine.

Cassava – which is known in some countries as manioc – is a root crop that produces a tuber resembling a large potato. It grows in poor soils, does not require chemical fertiliser and needs little rain. The plant's long roots tap soil moisture deep in the ground; when drought strikes, cassava has a "defensive mechanism" which causes its leaves to drop while the tubers survive. This has led to the claim: "Where there is cassava there is no hunger".

"In times of drought, cassava will survive when other crops wither, says Mr Alfred Dixon, a crop breeder at the International Institute of Tropical Agriculture (IITA) in Ibadan, Nigeria. The institute – which celebrates its 25th anniversary on July 24 – is one of 16 world-wide centres belonging to the Consultative Group on International Agricultural Research. It is trying to increase the productivity of key African food crops, such as cassava, and to develop sustainable systems that replace "slash and burn" techniques.

Processed cassava is eaten daily by some 300m people in Africa, around two-thirds of the continent's population, and also in parts of Latin America and Asia – the largest producers are Nigeria, Brazil and Thailand. Although it grows extensively across west and central Africa, the crop only grows in small pockets in southern Africa, the region now affected by the worst drought for 50 years.



S.K.Hahn

Polyploid cassava varieties (right) yield much more heavily than the normal diploid varieties (left)

About half of Africa's cassava is used for subsistence needs and half for commercial purposes. The crop has the advantage that it can be stored in the ground for over a year, giving farmers the freedom to eat or sell it when the need arises. Cassava's disadvantage is that while high in calorie content, it is low in protein. But its nutritional value can be increased by adding protein-rich crops such as soyabean.

To try to develop high-yielding varieties of cassava, crop breeders at IITA crossed cultivated species with a wild species of the plants, and say they discovered spontaneous "polyploids" with up to four times the normal number of chromosomes. The more chromosomes there are in a plant, the more chance of higher yields.

When breeders tested the new polyploids at research stations in different areas, they tried as far as possible to grow them in the conditions that exist on farmers' fields. The results exceeded expectations. Whereas the best existing variety of cassava – known as TMS 30572 – yields an average of 23 tonnes a hectare "on station", the new varieties yielded between 50 to 70 tonnes per hectare. Cassava yields an average of 12 tonnes a hectare on African farms.

The polyploids are now being tested on selected farms. Korean crop breeder Mr Sang-Ki Hahn, who leads IITA's cassava programme, is hopeful of yields up to 40 tonnes a hectare on farms, giving farmers two to three times more than their existing harvests. This would mean substantially more food being grown in Africa by Africans and would offer many countries the prospect of reducing food imports.

"The polyploids offer the potential for a very significant breakthrough," believes Mr Lukas Brader, IITA's director general.

For southern African countries the availability of "super cassava" could lead to far-reaching changes in agriculture. Maize, the staple food across most of southern Africa, is highly vulnerable to drought, and researchers have been unable to develop maize varieties that can cope with drought. "In southern Africa there is now tremendous interest in increasing cassava production," says Mr Brader.

An Eastern and Southern African Root Crops Network was set up in 1977 to help countries develop root crops. IITA officials say that Zimbabwe is trying to start a large-scale cassava programme and that Zambia is interested in extending its crop. In Uganda, a World Bank project is helping to expand the area under cassava.

Like maize, a small proportion of cassava output is used for animal feed and for industrial purposes such as making beer, cosmetics and starches. "Cassava could be used instead of maize for such purposes," says Mr Dixon, "leaving more maize for food."

IITA officials believe that the new varieties of cassava will make the crop highly attractive to farmers across Africa, both for their own food security and also as a profitable commercial crop. The continent's growing population is leading to increased demand for cassava, which is reflected in substantially higher prices in many areas. In Ibadan, it is fetching Naria 1,500 (£43) a tonne compared with N180 a year ago.

An IITA survey of cassava in Africa found that in 275 villages (in six countries that had not experienced famine), cassava was grown as the main crop in half of them. The survey revealed that in villages where cassava was increasingly cultivated, 30 per cent of villagers said they were growing more of the crop as a security against hunger and famine, 25 per cent said it was because of growing population, while 20 per cent cited a good local market.

Crop breeders are cautiously optimistic that the new varieties will give Africa a long-overdue breakthrough to higher food output. "Africa shall survive," believes Mr Hahn, "because of polyploidy in cassava."

English farm survey shows big switch to contracting

By Paul Cheeseright, Midlands Correspondent

MORE THAN 40 per cent of the farms in England's central counties have embarked on programmes of diversification, but the most popular new business is that which trades on existing assets: contracting for other farmers.

This emerges from a survey of more than 1,100 agricultural, horticultural and other rural businesses in Leicestershire, Nottinghamshire and Warwickshire. The survey was carried out for the local training and enterprise councils, the Heart of England Agricultural Training Board and the Rural Development Commission.

The results not only indicate the speed of change on British farms, stimulated by European Community attempts to bring price support spending under control, but also imply that the moves towards farm diversification have made only limited progress towards stabilising the rural economy.

Analysis of response to questions, relating to business, the rural workforce and training failed to establish the extent to which diversification activities "either increase employment opportunities or fully employ existing labour".

Nearly half of the diversified farms had become engaged in contracting, the survey showed, as farmers sought greater use from existing investment. Indeed, the report noted, "the most popular diversifications appear to be those trading on existing assets rather than those requiring high capital outlay".

Against the background of steady decline in the farm workforce – a 9 per cent reduction over the last five years in the three counties – farmers are using more outside labour.

The survey showed that over two-thirds of farms used contractors, just under a half used casual labour and that a fifth used self-employed workers.

But Mr Nigel Gaynor, director of the Heart of England Agricultural Training Board, has doubts about how far contracting can be taken as a diversification. "A big question arises: there must be a finite amount of work that can be done by contracting," he said.

More certain is the fact that farmers in Leicestershire, Nottinghamshire and Warwickshire are engaged in a continuing search to reduce fixed costs. This prompted the report both to predict an increase in the use of outside labour and to note the introduction in the area of machinery rings.

After contracting, the most common farm diversification is retail outlets (provided by 27 per cent of farms), followed by the provision of holiday accommodation and leisure activities. But all these activities are at least partially dependent for their success on consumer spending, which has been flattened by the recession.

Rural Employment, Training and Enterprise Database: A Rural Labour Market and Training Study; June 1992; Heart of England ATB, York House, Clarendon Avenue, Leamington Spa CV32 5PP; £5.

WORLD COMMODITIES PRICES

MARKET REPORT

COPPER prices appeared to be consolidating at the London Metal Exchange yesterday after the three months position was trimmed back from a morning high at the equivalent of $2,510 a tonne, dealers said, adding that the uptrend might be resumed later. The price ended at $2,493 a tonne, up $23 from the pre-weekend level. In other LME markets the trend was modestly downwards, notably in **ZINC**, where the cash price fall of $10 to $1,292 a tonne widened its discount against three months metal by $7 to $22 a tonne. Three months **NICKEL** closed $80 lower at $7,515 a tonne after commission house liquidation triggered stop-loss selling orders. Talk of an imminent 3-month closure of a Chinese nickel smelter for maintenance had little impact. At the London bullion market dealers described **GOLD** as subdued but steady and no further attempt was made to breach upside resistance at $350 a troy ounce, although healthy physical offtake from the jewellery trade was reported to be lending extra support. The price closed 25 cents up at $348.70 an ounce. Patchy buying on continuing South African worries helped **PLATINUM** to gain $1.85 at $386.85 an ounce.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$18.45-8.50z	-.075
Brent Blend (dated)	$19.80-19.95	-.125
Brent Blend (Aug)	$20.00-0.05	-0.15
W.T.I (1 pm est)	$21.35-1.40z	-0.15
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$218-222	-1
Gas Oil	$183-184	-1.5
Heavy Fuel Oil	$83-85	
Naphtha	$193-195	
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$348.70	+0.25
Silver (per troy oz)♣	394.0c	
Platinum (per troy oz)	$386.85	+1.85
Palladium (per troy oz)	$86.25	+0.85
Copper (US Producer)	117.70c	+1.35
Lead (US Producer)	37.0c	
Tin (Kuala Lumpur market)	17.39r	-0.2
Tin (New York)	326.0c	
Zinc (US Prime Western)	82.0c	
Cattle (live weight)†	109.98p	-0.90*
Sheep (live weight)†♣	77.47p	+3.06*
Pigs (live weight)†	89.32p	+1.49*
London daily sugar (raw)	$258.2w	+2.2
London daily sugar (white)	$291.3w	+1.3
Tate and Lyle export price	£242.5	
Barley (English feed)	£111.0	
Maize (US No 3 yellow)	£149.0	
Wheat (US Dark Northern)	Unq	
Rubber (Aug)♥	50.25p	-0.5
Rubber (Sep)♥	50.25p	-0.5
Rubber (KL RSS No 1 Jul)	221.0r	+1
Coconut oil (Philippines)§	$540.0t	-5
Palm Oil (Malaysian)§	$392.5z	
Copra (Philippines)§	Unq	
Soyabeans (US)	£134.5	+0.5
Cotton "A" Index	65.70c	+0.15
Wooltops (64s Super)	377p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb r-ringgit/kg t-Sep/Oct y-July w-Jul/Aug z-Aug. . †Meat Commission average fatstockprices.* change from a week ago ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.♣Sheep prices are now live weight prices.‡‡ previous figure should have been 250.5

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Aug	233.00	229.00	227.20
Oct	214.60	212.00	212.00
Dec	202.00	200.00	197.40
Mar	205.00	203.00	202.60
White	**Close**	**Previous**	**High/Low**
Aug	292.50	291.00	294.60 290.50
Oct	268.00	266.00	268.00 265.70
Dec	267.00	265.00	267.00 265.50
Mar	269.00	268.50	270.00 268.00
May	271.50	271.40	272.00 270.00
Aug	276.50	276.40	277.00 275.30

Turnover: Raw 78 (175) lots of 50 tonnes. White 2045 (1741) Paris- White (FFr per tonne): Aug 1468.82 Oct 1354.96

CRUDE OIL – IPE $/barrel

	Close	Previous	High/Low
Aug	19.97	19.86	20.03 19.81
Sep	20.02	19.96	20.09 19.86
Oct	20.00	19.97	20.06 19.92
Nov	20.01	20.00	20.01 20.01
Dec	19.95	19.96	19.95 19.95
Jan	19.88	19.56	19.87 19.85
IPE Index	20.07	19.95	

Turnover 33247 (22211)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low
Aug	183.75	185.00	185.25 183.00
Sep	185.75	186.75	186.75 185.00
Oct	188.25	189.50	189.25 187.50
Nov	190.25	191.25	190.75 189.50
Dec	191.25	193.00	192.00 190.50
Jan	190.00	191.75	191.00 189.25
Feb	187.00	188.75	188.00 187.00

Turnover 8587 (14978) lots of 100 tonnes

TEA

There was good general demand reports the Tea Broker's Association. Landed bright liquoring East Africans proved irregular but mostly firm with quality. Medium descriptions met increased competition and tended dearer. Plainer sorts showed little change. Central Africans remained firm with brighter teas dearer. Offshore improved demand. East Africans teas were firm to dearer and Central Africans about steady with a few brighter sorts dearer. The highest price realised this week was 201p for a Rwanda pd. Quotations: quality 165p, nom good medium 135p, medium 112p, low medium 80p.

COCOA – London FOX £/tonne

	Close	Previous	High/Low
Jul	610	600	609 600
Sep	616	614	632 612
Dec	644	644	662 642
Mar	671	673	689 670
May	688	690	705 689
Jul	706	707	720 706
Sep	724	723	731 723
Dec	750	750	762

Turnover: 7204 (4598) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jul 10 791.30 (777.81) 10 day average for Jul 13 753.21 (742.54)

COFFEE – London FOX $/tonne

	Close	Previous	High/Low
Jul	750	761	770 743
Sep	760	776	791 756
Nov	770	786	800 786
Jan	784	799	812 782
Mar	800	821	828 808
May	815	835	846 832

Turnover:3304 (5807) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jul 10: Comp. daily 50.23 (49.11) 15 day average 47.51 (47.42)

POTATOES – London FOX £/tonne

	Close	Previous	High/Low
Apr	79.5	78.5	79.5 78.0

Turnover 107 (150) lots of 20 tonnes.

SOYAMEAL – London FOX £/tonne

	Close	Previous	High/Low
Aug	118.50	-	
Oct	118.70		118.70

Turnover 100 (0) lots of 20 tonnes.

FREIGHT – London FOX $10/index point

	Close	Previous	High/Low
Jul	1047	1070	1085 1047
Aug	1090	1110	1110 1090
Sep	1130	1160	1140 1130
Oct	1202	1225	1220 1202
BFI	1058	1059	1058

Turnover 117 (141)

GRAINS – London FOX £/tonne

Wheat	Close	Previous	High/Low
Nov	115.75	116.05	116.85 115.75
Jan	119.00	119.35	119.90 119.00
Mar	122.00	122.40	122.70 122.00
May	125.25	125.25	125.25
Jun	127.25		127.35 127.25
Barley	**Close**	**Previous**	**High/Low**
Sep	111.25	111.40	111.80 111.25
May	121.65	122.00	121.65 121.65

Turnover: Wheat 137 (375) . Barley 31 (144).
Turnover lots of 100 Tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low
Jul	118.0	117.5	117.2 117.0
Aug	108.0	106.5	108.0 107.0
Sep	108.0	105.9	107.0 106.5

Turnover: 16 (67) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)					Total daily turnover 47,074 lots	
Cash	1294.5-95.5	1297.5-8.5	1294.5	1294-94.5		
3 months	1319-20	1322-3	1330/1318	1318.5-19	1318-19	167,701 lots
Copper, Grade A (£ per tonne)					Total daily turnover 36,718 lots	
Cash	1301.5-2.5	1294-5	1299	1298.5-99.5		
3 months	1317-18	1308-9	1321/1316	1315-16	1313-14	130,153 lots
Lead (£ per tonne)					Total daily turnover 6,043 lots	
Cash	311.5-2.5	316-7	311.5/311	311.5-2.0		
3 months	323.5-4.0	327-8	325/322	323.5-24	323-24	25,442 lots
Nickel ($ per tonne)					Total daily turnover 6,871 lots	
Cash	7440-50	7525-35	7440/7435	7430-35		
3 months	7510-20	7590-600	7585/7515	7510-15	7510-15	25,099 lots
Tin ($ per tonne)					Total daily turnover 1,366 lots	
Cash	7030-35	7060-5	7042/7041	7041-43		
3 months	7050-55	7080-5	7075/7050	7060-61	7050-55	10,615 lots
Zinc, Special High Grade ($ per tonne)					Total daily turnover 24,695 lots	
Cash	1291-93	1301-3	1292	1292-92.5		
3 months	1313-15	1317-8	1318/1304	1303-04	1309-10	231,969 lots

LME Closing £/$ rate: SPOT: 1.9295 | 3 months: 1.8984 | 6 months: 1.8673 | 9 months: 1.8418

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	348.50-349.00	
Opening	348.80-349.20	
Morning fix	348.90	180.758
Afternoon fix	348.40	180.575
Day's high	349.10-349.40	
Day's low	348.20-348.50	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.00	6 months	2.98
2 months	2.98	12 months	3.04
3 months	2.97		

Silver fix	p/troy oz	US cts equiv
Spot	204.20	393.60
3 months	209.40	398.95
6 months	214.50	400.35
12 months	224.60	408.35

GOLD COINS

	$ price	£ equivalent
Krugerrand	348.00-350.00	180.00-182.00
Maple leaf	356.70-361.00	-
New Sovereign	84.00-85.00	43.00-45.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Sep	Dec	Sep	Dec
1250	71	100	5	18
1350	16	42	51	42
1450	8	24	60	82
Copper (Grade A)	**Calls**		**Puts**	
2400	123	123	15	49
2500	57	71	48	95
2600	20	37	110	159
Coffee	**Sep**	**Nov**	**Sep**	**Nov**
700	66	87	8	17
750	35	55	25	35
800	15	34	56	64
Cocoa	**Sep**	**Dec**	**Sep**	**Dec**
575	48	82	5	13
600	30	54	17	20
625	18	46	29	30
Brent Crude	**Aug**	**Sep**	**Aug**	**Sep**
2000	10	47	10	42
2050	1	25	-	-
2100	[illegible]	[illegible]	[illegible]	[illegible]

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Jul	349.1	348.3	0	0
Aug	349.6	349.0	349.9	349.0
Sep	350.6	349.5	0	0
Oct	351.5	350.7	351.4	350.9
Dec	353.3	354.5	353.5	352.7
Feb	355.0	356.3	355.3	355.0
Apr	357.2	358.4	356.9	356.9
Jun	359.2	360.4	359.1	359.1
Aug	361.4	360.6	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jul	391.0	387.6	390.0	388.0
Oct	391.5	388.6	392.0	388.0
Jan	392.0	388.6	390.0	389.5
Apr	389.5	388.6	387.0	387.0
Jul	387.2	388.8	386.7	386.7

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Jul	391.9	392.0	393.0	391.0
Aug	392.8	393.0	0	0
Sep	393.8	394.0	394.5	392.5
Dec	397.6	396.0	398.5	396.5
Jan	398.3	399.5	0	0
Mar	401.2	402.4	402.0	402.0
May	405.1	405.3	405.0	405.0
Jul	408.3	408.3	409.0	409.0
Sep	411.0	411.2	0	0
Dec	416.1	418.3	417.0	417.0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	112.65	113.35	113.65	112.45
Aug	112.75	113.45	112.70	112.70
Sep	112.75	113.45	113.50	112.40
Oct	112.10	112.80	112.30	112.15
Dec	111.95	112.60	111.80	111.80
Jan	111.65	112.25	112.10	111.35
Feb	111.05	111.65	0	0
Mar	110.45	111.05	110.40	110.40
May	109.75	110.35	109.65	109.65
Jul	109.15	109.80	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Jul 13	Jul 10	mnth ago	yr ago
1562.3	1553.7	1590.8	1728.0

DOW JONES (Base: Dec. 31 1974 = 100)

	Jul 13	Jul 9	mnth ago	yr ago
Spot	118.51	118.40	119.81	124.96
Futures	118.84	118.03	120.00	122.76

CRUDE OIL (Light) 42,000 US galls $/barrel

	Close	Previous	High/Low	
Aug	21.36	21.28	21.46	21.12
Sep	21.30	21.21	21.38	21.07
Oct	21.28	21.20	21.32	21.05
Nov	21.24	21.19	21.29	21.08
Dec	21.21	21.16	21.24	21.04
Jan	21.14	21.09	21.15	21.08
Feb	21.06	21.01	21.05	20.97
Mar	20.96	20.90	20.93	20.90
Apr	20.87	20.80	20.86	20.76
May	20.78	20.70	20.70	20.68

HEATING OIL 42,000 US galls, cents/US galls

	Close	Previous	High/Low	
Aug	6005	5941	6040	5915
Sep	6110	6037	6140	6010
Oct	6200	6140	6220	6120
Nov	6295	6240	6310	6220
Dec	6375	6327	6400	6305
Jan	6400	6362	6420	6350
Feb	6305	6277	6330	6265
Mar	6065	6047	6075	6035
Apr	5840	5832	5835	5800
May	5675	5677	5730	5730

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Jul	993	976	1016	1010
Sep	1033	1026	1067	1029
Dec	1090	1084	1118	1088
Mar	1130	1126	1155	1130
May	1163	1159	1182	1175
Jul	1191	1187	0	0
Sep	1220	1216	0	0
Dec	1261	1257	0	0
Mar	1299	1295	0	0
May	1328	1324	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Jul	59.10	60.55	60.80	58.50
Sep	61.05	63.15	63.10	61.00
Dec	63.40	65.35	65.20	63.25
Mar	65.95	67.70	67.50	65.90
May	69.95	71.85	71.20	70.00
Jul	72.05	73.75	72.50	72.50
Sep	73.90	75.75	0	0
Dec	76.65	78.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	9.55	9.41	9.62	9.40
Mar	9.35	9.28	9.41	9.24
May	9.31	9.19	9.26	9.20
Jul	9.25	9.20	9.30	9.25
Oct	9.16	9.17	9.18	9.18

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Oct	63.75	64.40	64.36	63.52
Dec	62.98	63.30	63.20	62.70
Mar	64.00	64.45	64.20	63.75
May	64.70	65.12	64.70	64.60
Jul	65.00	65.42	65.10	65.00
Oct	63.81	63.40	0	0
Dec	63.26	63.31	63.26	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	124.70	125.00	125.00	124.10
Sep	120.30	121.15	121.50	119.00
Nov	114.50	115.35	115.40	113.50
Jan	113.35	113.60	113.60	112.25
Mar	113.35	113.65	113.55	113.00
May	113.35	113.65	0	0
Jul	112.85	113.15	112.25	112.26
Sep	112.85	113.15	0	0
Nov	112.85	113.15	0	0

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jul	572/2	578/4	573/0	566/0
Aug	575/0	576/6	575/6	568/0
Sep	577/2	579/2	578/4	571/4
Nov	582/0	585/0	583/0	575/0
Jan	589/4	593/2	590/4	583/2
Mar	598/4	601/6	599/0	592/0
May	604/4	608/4	604/4	599/0
Jul	607/0	613/0	608/0	603/4

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	19.56	19.85	19.70	19.48
Aug	19.62	19.93	19.75	19.56
Sep	19.76	20.06	19.88	19.69
Oct	19.91	20.20	20.02	19.85
Dec	20.23	20.51	20.33	20.15
Jan	20.33	20.62	20.40	20.30
Mar	20.64	20.90	20.70	20.55
May	20.91	21.15	21.00	20.85

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Jul	176.4	175.4	176.5	174.0
Aug	176.8	176.1	177.3	174.7
Sep	177.7	177.2	178.2	175.6
Oct	194.8	194.2	195.0	192.5
Dec	194.9	193.6	195.2	192.2
Jan	194.5	193.7	194.5	192.6
Mar	194.5	194.3	194.5	192.5
May	194.3	194.5	194.5	192.5

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Jul	240/4	244/4	243/2	238/2
Sep	237/6	241/2	240/0	236/0
Dec	239/4	242/0	239/6	236/6
Mar	247/4	249/6	247/4	245/0
May	252/6	254/0	252/6	250/4
Jul	256/4	258/4	256/4	254/2
Sep	253/4	256/0	253/4	253/2
Dec	251/0	254/4	254/0	251/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Jul	339/2	335/0	340/0	334/0
Sep	339/0	335/2	340/0	334/2
Dec	348/4	345/2	349/0	343/4
Mar	350/6	348/0	351/0	345/4
May	343/0	340/0	343/0	335/4
Jul	325/2	323/4	326/0	320/0
Sep	330/0	332/0	0	0
Dec	338/0	340/0	0	0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Aug	73.575	73.675	74.250	73.500
Oct	73.100	73.100	73.475	72.950
Dec	71.300	71.400	71.575	71.225
Feb	70.525	70.675	70.828	70.500
Apr	72.000	72.175	72.250	71.950
Jun	69.225	69.175	69.450	69.150
Aug	68.000	68.100	68.400	68.000

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Jul	45.775	46.275	46.125	45.750
Aug	42.875	42.900	43.175	42.700
Oct	38.175	38.300	38.350	37.900
Dec	39.450	39.625	39.650	39.250
Feb	40.200	40.675	40.550	40.150
Apr	39.600	40.100	40.050	39.500
Jun	45.400	45.700	45.600	45.200
Aug	43.275	43.750	43.600	43.250

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	30.800	30.800	31.000	30.400
Aug	27.250	27.200	27.650	26.825
Feb	36.875	37.275	37.300	36.100
Mar	36.700	36.875	37.100	36.000
May	37.600	37.950	37.680	36.900
Jul	37.350	37.100	37.350	37.000

كلية عين الحصاد

LONDON STOCK EXCHANGE

Currency factors depress share prices

By Terry Byland, UK Stock Market Editor

CONCERN over the implications for sterling of developments in European currencies, deepening ahead of Thursday's meeting at the Bundesbank, kept the UK stock market depressed yesterday. Trading volume was poor and the market opened the new two-week trading account with a loss of a further 12.5 points on the FT-SE Index.

Determined rejection by both Mr John Major, the UK prime minister, and Mr Norman Lamont, chancellor of the exchequer, of calls from some political sources for sterling devaluation combined with fears in the City of London that the Bundesbank might tighten monetary policy this week. Lingering hopes for an early cut in UK interest rates have been replaced by fears that they could be forced up.

Equities opened lower and a brief attempt to rally was soon extinguished. With the September futures contract on the Footsie below 2,500 for most of the day the stock market remained resolutely on the downside, showing a loss of 17.1 at the day's low. Share prices recovered a little in late trading when Wall Street opened the new session with a gain of 8 Dow points in London trading hours.

At the close, the FT-SE showed a fall of 12.5 at 2,478.3. Selling pressure remained light, as reflected by a Seaq volume total of 349.3m shares, well below levels acceptable to the London securities industry. Friday's Seaq total of 519.5m reflected customer, or retail, business in equities worth only £982.8m, according to Stock Exchange statistics; this value total is at the low end of the range of market profitability.

Account Dealing Dates		
*First Dealings:		
Jun 29	Jul 13	Jul 27
Option Declarations:		
Jul 9	Jul 23	Aug 6
Last Dealings:		
Jul 10	Jul 24	Aug 7
Account Day:		
Jul 20	Aug 3	Aug 17

*New time dealings may take place from 8.30 am two business days earlier.

Weakness in the dollar gnawed away at recent share gains in such transatlantic favourites as Glaxo and Rothmans International. ICI turned lower again as the market continued to shy away from the possibility that a large US investment bank might seek to place a 10m share stake in the UK chemical company. However, Wellcome edged higher ahead of the share placing operation.

UK stock market strategists have remained noticeably cautious, and have generally taken a relatively cautious view of the near term outlook. At Goldman Sachs, Sushil Wadhwani sets a 12 month target for the Footsie of 2,900 – "provided that the economy is seen to recover, albeit at a sluggish rate"; but, if the UK economy fails to recover, or valuation norms change, then "equities might weaken to 2,000 in twelve months."

Nomura Research Institute, commenting on the UK recession, says "It's not over yet", warning that recent rises in manufacturers' and retailers' stocks might be the result of inflated expectations about demand growth.

At Nikko Securities, Peter Thorne also suggests that recent negative sentiment has been caused by unrealistic economic expectations and remains convinced that UK equities are good value against bonds and other international markets.

Richard Kersley at Barclays de Zoete Wedd, also believes that a yield ratio on equities against bonds now at its lowest point since 1974 must be a supportive factor for share prices.

Heavy trading in HSBC

THE FIRST day's trading in HSBC (Hongkong and Shanghai Banking Corporation) as a constituent of London's FT-SE 100-share Index saw the shares race higher both in London and Hong Kong. Investors were additionally encouraged by news that the bank had sold its 10 per cent stake in the Hong Kong airline Cathay Pacific.

HSBC's entry into the Footsie, following its successful takeover of Midland Bank, triggered a flurry of buying from Footsie tracking funds. The shares rose 7½ to 348p and were the most heavily traded on the London market with turnover reaching 22.5m.

The sale of the 10 per cent shareholding in Cathay Pacific was viewed positively by banking specialists, who said they expected HSBC shares to continue to move ahead.

Demand for Fisons

Pharmaceuticals group Fisons recovered sharply as UK merchant bank Kleinwort Benson decided that the price had fallen too far. The house already had the stock on its buy list and was telling clients that the fundamental value of the company's drugs, marketing infrastructure and R & D pipeline were "in excess of the current share price".

Kleinwort also believes that if Fisons does not sort out its manufacturing problems a hostile bid of at least 350p a share is a possibility. The stock, which had fallen after end-of-account bear-raiding on Friday, closed 16 better at 205p.

Hints that institutional investors overweight in Glaxo might be adjusting portfolios in readiness for the forthcoming Wellcome issue reacted against last week's buying and sent Glaxo 20 lower to 690p.

There was a further deflation of sentiment after an article in the US press reiterated concern about side-effects from the anti-migraine drug Sumatriptan, which Glaxo markets in the UK as Imigran. It also cited possible rivals to the group's ulcer drug Zantac. Wellcome picked up 3 to 878p.

SmithKline Beecham held up well as both the "A" shares and the units were split to allow for an easier comparison between the two. The "A" stock closed at 454p, slightly firmer than the 904p mid price before the two-for-one split.

The units were affected by a 10-for-one split and closed at 412p, against an opening price of 4098p.

Barclays was a casualty in an otherwise buoyant banking arena, as the shares continued to react to increasing worries about a dividend cut. The bank is scheduled to announce interim figures on August 6.

The stock was also affected by further switching from Barclays into National Westminster. Carr Kitcat & Aitken advised the switch last week. Barclays finished 4 lower at 316p and NatWest moved forward 4 to 339p.

Lloyds Bank delivered another good performance, although dealers said the rise of 8 to 435p owed more to a continuing stock shortage than any surge of buying.

TSB continued to intrigue banking specialists as long-running rumours of a possible stake-building operation as a prelude to a full bid continued to circulate. The shares settled 6 higher at 148p on 6.1m traded, with dealers noting above-average turnover in recent sessions and increased activity in the traded options.

Lloyds, which lost out in the battle for control of Midland Bank, has been rumoured as a potential bidder for TSB, although it has played down the stories.

The composite insurance sector, which fell 9 per cent relative to the wider market last month, lost further ground amid growing concern about the safety of dividends in the sector. General Accident, labelled "expensive" by County NatWest, which says the stock trades at a 10 per cent premium to net asset value as opposed to discounts by all the other composites, weakened 9 to 418p.

ICI lost 20 to 1143p as last week's end of account speculation that Goldman Sachs had offloaded its alleged 10m-share stake in the group died away. There had been a rumour that one securities house was prepared to take stock from Goldman at 1150p a share and also that Goldman had been active in the futures market last week.

A downgrade in Courtaulds left the shares off 11 at 502p. UBS Phillips & Drew cut its forecast for the year ending March 1993 by £10m to £210m and the following year's by £15m to £230m. The revision follows a recent and heavy Smith New Court profits downgrade last month of its biggest UK competitor, ICI. Smith is also adjusting its Courtaulds figure but is not believed to be as bearish as UBS.

Chemicals distribution group Ellis & Everard fell 13 to 172p. The group announced that the chairman was leaving after "management differences" in the company and revealed a 27 per cent profits slide to £9.1m.

Preliminary results from Tomkins, showing profits at the top end of market expectations and a 15 per cent increase in the dividend, were given a warm response by the market. The shares were hoisted 12 to 471p in turnover of 1.2m.

P & O's recent uncomfortable ride in the stock market continued and the shares lost 10 to 388p. They were said to have been weakened by an overhang of stock apparently sold into the market last week as part of a programme trade.

The biggest casualty in the oil sector was Enterprise, which receded 7 to 371p following a Nomura downgrade.

Confident trading noises continued to emanate from Cadbury-Schweppes, the shares adding 5 at 474p.

Among retailers, Morrison Supermarkets firmed a penny to 120p ahead of a London presentation this week, as did Argyll, to 355p, with an encouraging agm expected tomorrow.

Some switching from Tesco, where margins are said to be suffering, into J. Sainsbury left the former 2 off at 253p and the latter ahead 4 at 451p.

In a quiet leisure sector, Thorn EMI found favour as Hoare Govett put the group on its weekly top buy list, having decided that the stock had reached the bottom of its relative trading range. The shares gained 9 to 803p in meagre turnover.

Interest rate concern and dividend worries hit a number of leading property shares. Great Portland Estates declined 7 to 123p, Hammerson "A" 11 to 285p, MEPC 8 to 258p and Slough Estates 15 to 125p.

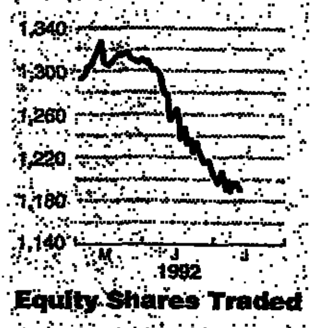
Media buying company Aegis, which had fallen on Friday after a broker's sell note, bounced 4 to 43p.

Confirmation of a £30m contract for 150 armoured cars was not enough to prevent GKN dipping 4 to 381p.

MARKET REPORTERS:
Peter John,
Christopher Price,
Steve Thompson.

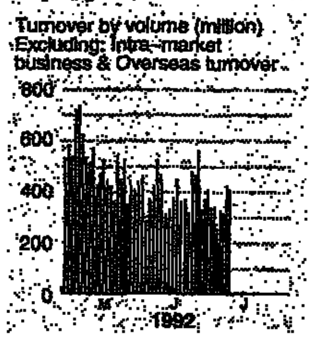
■ Other market statistics, including the FT-Actuaries Share Indices and London Traded Options, Page 25.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million). Excluding: Intra-market business & Overseas turnover.



NEW HIGHS AND LOWS FOR 1992

NEW HIGHS (10).
BANKS (3) Bk Scotland 9¼pc Pf, HSBC, Midland, MATERIALS (1) Grafton, ELECTRONICS (1) Tunstall, FOOD MANUFACTURING (1) Barr (AG), INVESTMENT TRUSTS (4) Abtrust Prfd Zero Pf, Drayton Recovery Prfd Gwth, River & Merc Stppd Pf, Scottish Natl Zero Pf.
NEW LOWS (147).
AMERICANS (1) Woolworth, BANKS (2) ANZ, Espirito Santo, BREWERS & DISTILLERS (1) Fuller STA, BUILDING MATERIALS (5) Blue Circle 7⅞pc Pf, Erith, Haywood Williams, Sharpe & Fisher, Travis Perkins, BUSINESS SERVICES (2) African Lakes, REA, CHEMICALS (1) Ellis & Everard, CONGLOMERATES (2) Rogner, Tollgate, CONTRACTING & CONSTRUCTION (9) AMEC, Bett Bros, Campbell & Armstrong, Conder, Gleeson (MJ), Mowlem (J), Prowting, Sindall (Wm), Wilson (C), ELECTRICALS (2) BICC, Dale, ELECTRONICS (4) Betacom, Kewill Systems, P-E Intl, Psion, ENGINEERING GENERAL (5) Alvis, Kvaerner, Silverminee, Victaulic, Wheway, FOOD MANUFACTURING (5) Clifford, Do NIV, Daniels (S), Matthew (B), Sims, FOOD RETAILING (6) ASDA, Brake Bros, Cullen's, Fyffes, M & W, Watson & Philip, HEALTH & HOUSEHOLD (4) Lilly (E), Medeva, Seton Healthcare, Specialeyes, HOTELS & LEISURE (6) Expedier, Friendly, Jurys, Owners Abroad, Resort, Savoy, INSURANCE BROKERS (6) Bradstock, Heath (CE), Hogg, JIB, Marsh & McLennan, Sturge, INSURANCE COMPOSITE (2) Hafnia, Topdanmark, INVESTMENT TRUSTS (17) Abtrust Prfd Inc, Anglo & Overseas, City of Oxford Inc, Cont Assets, Dartmoor Inv, Equity Consort, First Spanish Wts, Fleming American, Flmg Inc & Cap Inc, Flmg Intl High Inc, Flmg Universal, Gartmore Scotland Uts, Henderson Highland, Selective Assets, Radiotrust, TR High Inc, TR Tech, MEDIA (2) HTV, Trans World Comms, MERCHANT BANKS (1) Brown Shipley, METAL & METAL FORMING (4) ASW, Apollo Metals, Cook (Wm), Utd Inds, MISCELLANEOUS (6) Bimec, Laser-Scan, Levercrest, Porth, Savage, Tamaris 8½pc Pf, OIL & GAS (2) Blystad, New London, OTHER FINANCIAL (3) Cambridge, East German, Natl Home Loans, OTHER INDUSTRIAL MATERIALS (3) BH Prop, Baynes (C), Pacific Dunlop, PACKAGING, PAPER & PRINTING (2) Gibbons Lyons, Shelton (M), PROPERTY (20) Bilton, Brixton Est, Capital & Regnl, Dencora, Greycoat, Gt Portland, Hammerson, High-Point, Lend Lease, MEPC, McKay Secs, Olives, Osborn Ests, Prop. Security, Scot. Metrop., Slough, Do 8¼pc Pf, Southend, Stewart & Wight, Warner Est, STORES (5) Argos, Asprey, Coles Myer, Lloyd Chems, Do 7½pc Prf, TEXTILES (8) Campari, Shani, Sirdar, TRANSPORT (2) Ocean, TNT, PLANTATIONS (1) Highlands, MINES (13) Anglo Amer Coal, Anglovaal, East Daggs, Free State Devlpt, Hartebeest, Nth Broken Hill, Rand Mines Prop, Rand Mines, Sth African Land, Southvaal, Willoughbys Consld, Do Prfd, Winkelhaak.

FINANCIAL TIMES STOCK INDICES

	July 13	July 10	July 9	July 8	July 7	Year Ago	1992 High	1992 Low	Since Compilation High	Since Compilation Low
Government Secs	89.45	89.66	89.72	89.62	89.64	84.80	89.75 (3/7)	85.11 (1/4)	127.40 (9/1/35)	49.18 (3/1/75)
Fixed Interest	106.19	106.22	106.15	106.10	106.32	93.83	106.35 (6/7)	97.15 (2/1)	106.35 (6/7/92)	50.53 (3/1/75)
Ordinary Share●	1890.3	1903.7	1913.9	1891.1	1906.2	1951.1	2149.7 (22/5)	1851.4 (3/4)	2149.7 (22/5/92)	49.4 (26/6/40)
Gold Mines	85.3	84.0	83.8	83.6	86.6	214.2	160.6 (10/1)	83.6 (8/7)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2478.3	2490.8	2497.9	2472.6	2493.7	2532.5	2737.8 (11/5)	2382.7 (3/4)	2737.8 (11/5/92)	986.9 (23/7/84)
FT-SE Eurotrack 200	1149.14	1158.17	1158.82	1148.89	1157.81	1160.07	1248.79 (11/5)	1120.52 (8/1)	1248.79 (11/5/92)	938.62 (16/1/91)
●Ord. Div Yield	4.90	4.78	4.78	4.85	4.81	4.85				
●Earning Yld %(full)	7.06	6.97	7.00	7.10	7.05	4.52				
●P/E Ratio(Net)(☆)	17.85	18.00	17.93	17.67	17.79	14.42				
SEAQ Bargns 5.00pm	18,487	24,968	20,982	21,772	21,241	24,252				
Equity Turnover(£m)†	-	982.8	1042.7	816.9	844.0	720.5				
Equity Bargains†	-	26,820	23,396	24,211	23,270	24,088				
Shares Traded (ml)†	-	413.5	431.7	324.7	331.9	329.4				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90 ☆ Nil 16.61

Ordinary Share Index, Hourly changes Day's High 1896.3 Day's Low 1887.9

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1896.0	1895.2	1892.7	1894.7	1892.7	1894.2	1892.9	1888.6	1889.2

FT-SE 100, Hourly changes Day's High 2484.6 Day's Low 2473.7

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2483.3	2480.7	2479.2	2484.5	2483.4	2483.4	2481.5	2474.4	2475.8

FT-SE Eurotrack 200, Hourly changes Day's High 1152.10 Day's Low 1147.02

Open	10.30 am	11 am	12 pm	1 pm	2 pm	3 pm
1149.08	1150.88	1150.40	1148.24	1150.32	1150.44	1150.47

GILT EDGED ACTIVITY

Indices*	July 10	July 9
Gilt Edged Bargains	86.8	82.0
5-Day average	88.7	90.3

*SE Activity 1974.
†Excluding intra-market business and Overseas turnover.

London report and latest Share Index: Tel 0891 123001. Calls charged at 36p/minute cheap rate, 48p/minute at all other times.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change
ADT	7	451	-12	Comm. Union	263	453	-6	Lonrho	1,200	72	+3	Shell Transport	2,400	482	-½
ASDA Group	8,700	38		Cookson	589	144	+1	Lucas	356	118	-2	Siebe	142	848	-3
Abbey National	730	284	+8	Courtaulds	508	502	-11	MB Caradon	818	240	-3	Slough Ests	1,400	125	-15
Albert Fisher	9,200	39		Dalgety	354	411	-5	MEPC	68	258	-8	Smith (W.H.) A	522	406	-12
Allied-Lyons	1,200	629	-2	De La Rue	28	558	-1	Manweb	115	349	-4	Smith & Nephew	946	144½	+½
Amstrad	950	32½	+1	Dixons	1,700	188	-7½	Marks & Spencer	2,200	305	-3	SmKl Beecham	2,200	454	+2
Anglian Water	293	412	-2	Eastern Elect.	152	268	-9	Midlands Elect.	653	300	-6½	SmKl Beecham Uts.	620	412	+2
Argos	3,300	217	-5	East Midland Elect.	178	289	-8	NFC	180	252	-1	Smiths Inds	662	282	-3
Argyll Group	802	355	+1	Eng China Clays	2,500	608	-1	NatWest Bank	1,900	339	+4	Southern Elect.	972	283	-6
Arjo Wiggins	1,600	232	-4	Enterprise Oil	653	371	-7	National Power	450	245		South Wales Elect.	334	348	-5½
Ass. Brit Foods	69	422	-1½	Eurotunnel Units	37	333	-1	Next	3,900	87	-2	South West Water	177	407	-1
[illegible]				[illegible]				[illegible]				[illegible]			

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

WITH ALL eyes on Thursday's meeting of the Bundesbank council, many traders in the derivatives market stayed on the sidelines and there were few features to enliven a quiet session, writes Christopher Price.

The September contract on the FT-SE future opened at 2,499 and some early buying interest saw the contract bid up to 2,507. This, however, turned out to be its highest point of the day, as buyers turned shy, preoccupied with weekend press speculation over the gloomy outlook for interest rates, a possible sterling devaluation, and/or a realignment of the ERM. Inevitably, the focus of traders' attention was this Thursday's Bundesbank meeting.

From the mid-morning, September drifted away in lifeless trading. A minor lunchtime rally was quickly quashed and the afternoon session remained under a cloud, as flat gilts, US bonds and short sterling added to the air of despondency.

September closed at 2,492, down 17 from the previous session and at a 3-point premium to its fair value of around 13. Turnover was a meagre 5,441.

In traded options, only a big order in TSB enlivened an otherwise quiet session. A total of 1,180 contracts was dealt, with the December 140 calls accounting for 800 in one order.

Midland Bank recorded 921 contracts, as dealers sought to close positions, and ICI managed 681. However, overall a lowly total of 20,613 contracts were traded.

FT-ACTUARIES SHARE INDICES

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EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Mon Jul 13 1992 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1992 to date	Fri Jul 10 Index No.	Thu Jul 9 Index No.	Wed Jul 8 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (177)	783.42	-1.2	7.53	5.73	16.95	20.19	792.90	797.96	795.14	806.24
2 Building Materials (22)	874.81	-0.6	6.19	6.41	21.96	25.58	880.05	886.35	883.66	1023.63
3 Contracting, Construction (28)	752.47	-1.0	4.62	7.95	47.48	25.20	760.14	773.46	772.72	1140.47
4 Electricals (9)	2360.78	-1.3	7.33	6.40	17.68	68.82	2392.53	2437.68	2442.03	2312.92
5 Electronics (28)	1921.73	-3.2	8.38	4.52	14.89	44.82	1985.28	1981.36	1976.99	1691.14
6 Engineering-Aerospace (6)	326.19	-0.4	11.17	7.99	11.33	11.27	327.53	326.93	329.21	406.88
7 Engineering-General (43)	479.44	-0.5	8.59	5.02	14.42	11.44	481.98	480.78	476.28	434.51
8 Metals and Metal Forming (8)	298.04	-2.9	5.74	7.41	25.46	6.92	306.78	312.20	312.49	425.45
9 Motors (14)	342.26	-0.5	7.76	6.87	16.96	10.04	344.03	346.53	336.75	308.51
10 Other Industrial Materials (19)	1654.52	-0.8	7.50	5.02	16.06	36.53	1668.67	1686.32	1685.76	1553.44
21 CONSUMER GROUP (188)	1580.05	-0.5	7.70	3.62	15.94	24.61	1588.67	1594.83	1574.17	1487.27
22 Brewers and Distillers (24)	2070.01	-0.3	8.00	3.53	15.08	29.60	2077.20	2067.14	2017.72	1813.45
25 Food Manufacturing (19)	1233.37	-0.4	8.74	4.28	14.15	26.01	1237.74	1239.96	1238.95	1181.40
26 Food Retailing (18)	2764.91	+0.2	8.83	3.30	14.77	44.70	2758.07	2783.48	2769.09	2700.48
27 Health and Household (24)	3805.32	-0.8	7.25	2.78	15.72	37.92	3837.92	3861.52	3770.71	3623.60
29 Hotels and Leisure (18)	1191.81	-0.2	6.74	5.74	19.29	23.64	1193.67	1199.36	1191.26	1222.05
30 Media (26)	1506.63	-0.6	6.45	3.48	19.20	27.19	1515.77	1520.90	1513.34	1408.35
31 Packaging, Paper & Printing (17)	758.81	-0.8	6.77	4.35	17.90	14.76	764.59	768.98	759.38	706.45
34 Stores (33)	975.34	-1.2	7.75	3.80	17.04	16.96	986.79	997.15	993.57	930.72
35 Textiles (9)	653.08	-0.3	7.19	4.75	17.51	14.72	654.80	648.85	648.94	539.22
40 OTHER GROUPS (118)	1243.34	-0.9	10.03	5.30	12.44	25.61	1254.32	1251.58	1242.13	1227.06
41 Business Services (17)	1355.64	-0.5	6.44	3.68	18.93	20.78	1362.61	1364.33	1348.34	1274.21
42 Chemicals (22)	1381.02	-0.9	7.63	5.26	16.05	33.10	1394.14	1386.25	1373.23	1394.60
43 Conglomerates (11)	1219.06	-0.7	10.22	7.73	12.27	23.62	1228.25	1237.04	1239.21	1422.24
44 Transport (14)	2425.04	-0.7	8.14	4.87	15.15	54.40	2441.97	2449.72	2447.73	2144.06
45 Electricity (16)	1312.20	-2.3	15.05	5.59	8.41	38.33	1342.62	1360.65	1367.33	1200.77
46 Telephone Networks (4)	1408.44	-0.7	11.05	4.69	11.80	21.77	1418.69	1404.92	1390.08	1458.85
47 Water (11)	2808.48	-1.0	15.98	6.16	6.93	86.85	2835.51	2837.74	2800.34	2287.86
48 Miscellaneous (23)	2041.87	-0.1	5.51	4.83	23.90	29.19	2044.08	2015.28	1975.71	2009.54
49 INDUSTRIAL GROUP (483)	1274.35	-0.8	8.42	4.54	14.76	24.22	1284.21	1287.26	1275.01	1237.83
51 Oil & Gas (17)	1906.98	-0.5	7.94	7.46	16.55	63.73	1917.36	1951.17	1955.52	2447.29
59 500 SHARE INDEX (500)	1336.12	-0.7	8.37	4.83	14.92	27.32	1346.15	1351.38	1340.10	1339.93
61 FINANCIAL GROUP (85)	717.60	+0.3	-	6.29	-	20.06	715.71	711.56	710.54	787.08
62 Banks (9)	958.48	+1.2	6.88	5.71	20.61	24.58	946.96	935.81	927.27	896.34
65 Insurance (Life) (6)	1489.61	+0.3	-	5.98	-	44.26	1485.23	1467.62	1450.28	1479.09
66 Insurance (Composite) (7)	474.85	-1.3	-	7.33	-	13.46	480.94	482.85	486.53	661.58
67 Insurance (Brokers) (10)	783.64	-0.5	9.89	8.29	13.30	30.14	787.67	792.10	795.26	1147.58
68 Merchant Banks (7)	443.14	....	-	4.87	-	11.25	443.00	441.84	443.34	417.94
69 Property (31)	580.16	-2.3	10.01	7.90	13.51	19.44	593.63	598.26	615.34	891.19
70 Other Financial (15)	240.30	....	7.54	7.29	17.94	6.63	240.40	240.51	240.40	257.28
71 Investment Trusts (70)	1134.51	-0.3	-	3.94	-	19.26	1137.82	1137.19	1132.95	1202.77
99 ALL-SHARE INDEX (655)	1187.85	-0.6	-	4.99	-	25.23	1195.10	1198.25	1189.35	1206.38

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Jul 10	Jul 9	Jul 8	Jul 7	Jul 6	Year ago
FT-SE 100 SHARE INDEX‡	2478.3	-12.5	2484.6	2473.7	2490.8	2497.9	2472.6	2493.7	2469.0	2532.5

FIXED INTEREST

	PRICE INDICES	Mon Jul 13	Day's change %	Fri Jul 10	Accrued interest	xd adj. 1992 to date
	British Government					
1	Up to 5 years (24)	122.49	-0.25	122.92	2.15	6.60
2	5-15 years (24)	139.64	-0.45	140.28	2.80	6.89
3	Over 15 years (11)	151.05	-0.49	151.79	1.31	6.80
4	Irredeemables (6)	169.23	-0.10	169.39	1.73	7.34
5	All stocks (65)	136.79	-0.39	137.37	2.39	6.93
	Index-Linked					
6	Up to 5 years (2)	173.91	-0.03	173.97	1.07	1.83
7	Over 5 years (10)	153.26	-0.19	153.56	0.61	2.74
8	All stocks (12)	154.92	-0.17	155.18	0.67	2.60
9	Debs & Loans (62)	122.21	-0.29	122.62	2.45	6.21

	AVERAGE GROSS REDEMPTION YIELDS		Mon Jul 13	Fri Jul 10	Year ago (approx.)
	British Government				
1	Low	5 years	8.30	8.17	9.02
2	Coupons	15 years	8.70	8.66	9.88
3	(0%-7¾%)	20 years	8.70	8.66	9.88
4	Medium	5 years	9.17	9.06	10.27
5	Coupons	15 years	8.93	8.87	10.08
6	(8%-10¾%)	20 years	8.89	8.84	10.02
7	High	5 years	9.38	9.27	10.45
8	Coupons	15 years	9.08	9.02	10.21
9	(11%-)	20 years	9.01	8.95	10.10
10	Irredeemables	†	9.00	8.99	10.08
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	3.94	3.92	4.48
12	Inflation rate 5%	Over 5 yrs.	4.31	4.29	4.39
13	Inflation rate 10%	Up to 5 yrs.	3.14	3.12	3.48
14	Inflation rate 10%	Over 5 yrs.	4.11	4.09	4.19
15	Debs &	5 years	10.39	10.35	11.95
16	Loans	15 years	10.21	10.16	11.74
17		25 years	10.09	10.05	11.53

‡Opening Index 2483.3; 9 am 2480.7; 10 am 2479.2; 11 am 2484.5; Noon 2483.4; 1 pm 2483.4; 2 pm 2481.5; 2.30 pm 2476.6; 3 pm 2474.4; 4.10 pm 2476.7; (a) 10.47am (b) 3.08pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL. The FT-ACTUARIES SHARE INDICES SERVICE covers a range of electronic and paper-based products relating to these indices. These are available by subscription from FINSTAT, 2nd Floor, 126 Jermyn Street, London SW1Y 4UJ. Tel: 071-925 2323 CONSTITUENT CHANGES: DELETION: Midland Bank (62); ADDITION: HSBC Holdings (62).

LONDON SHARE SERVICE

BRITISH FUNDS

[illegible]

BRITISH FUNDS - Cont.

[illegible]

OTHER FIXED INTEREST

[illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

[illegible]

AMERICANS

Notes	Price £	+ or -	1992 high	low	Mkt Cap£m	Yld Gr's
Abbott Labs h	15 1/16xd	-3/16	18 1/8	14 3/4	12,822	2.1
♥Allegheny & W	272p	—	335p	226p	141.3	5.8
Amdahl	929p	—	1159p	793p	1,049	0.6
Amer Cyanamid	30 1/2	—	37	28 5/8	2,788	2.8
Amer Express	12 1/16xd	-1/16	18 7/8	10 13/16	5,997	4.2
Amer T & T	22 3/16xd	-1/16	24 7/8	20 1/4	29,929	3.1
Ameritech	34 5/8	—	38 13/16	32 1/2	18,180	5.3
BankAmerica	22 1/4xd	+1/8	27 1/8	19 1/16	7,674	3.1
Bankers NY	31 13/16xd	-1/16	37 1/4	28 7/8	2,636	4.6
Bell Atlantic	24 1/4	—	26 3/4	23 1/8	10,439	5.6
BellSouth	27 1/8	—	29 1/8	25	13,383	5.3
♥Bethlehem Steel	7 3/16xd	+1/16	9 5/8	7	678.6	—
Bowater	1094pxd	—	1579p	1016p	372.8	6.1
CPC h	25 1/4xd	—	25 5/8	22 3/8	3,809	2.5
♥Cadiz Land Inc	185p	—	342p	168p	—	—
California Engy	647p	+27	833p	620p	117.8	—
Campbell Soup	18 3/8cl	-3/8	23 3/16	17 3/8	4,853	2.1
Chase Manhattan	15 1/16xd	+1/16	16 1/2	9 1/8	2,117	4.2
Chrysler	18 5/8xd	-1/16	11 1/2	6 1/4	3,090	3.0
Citicorp	11 1/16xd	+1/16	11 1/4	5 1/8	3,889	—
Colgate-Palm	27 1/4xd	-1/4	29 7/16	25 1/4	4,338	2.4
Cont'l Bank	1821p	—	1036p	489p	1,891	3.1
Dana	20 13/16xd	-3/16	24 1/2	14 3/16	947.5	4.0
Data General	486p	—	1804p	398p	112.0	—
♥Decora Inds	104p	—	122p	66p	—	—
Dun & Brad	29 5/8	—	33 1/2	27 5/8	6,295	4.0
Eaton	39 1/2	—	48 1/2	32 1/2	1,959	2.9
Echlin	9 13/16xd	—	11	7 1/8	555.8	3.7
FPL	18 15/16xd	-1/16	20	18 1/8	3,283	6.7
Fluor	19 3/4	-1/4	27	19 1/4	1,601	1.1
Ford Motor	23 1/4	—	26 1/8	15	11,289	2.3
Gen Elect	38 1/2xd	-1 1/4	46 1/4	39 3/8	34,132	2.8
♥General Host	441p	+6	566p	380p	—	4.2
Gillette	25 1/16xd	-1/16	29 7/8	23 13/16	5,580	1.5
Hasbro	14	-1/2	16	12 1/8	1,206	0.7
Honeywell	33 11/16xd	-11/16	43	33 3/16	2,361	2.6
Houston Inds	23 1/4	—	25	22 7/8	3,011	6.8
IBM	50 1/2xd	-1/8	54 1/2	46 3/4	28,821	5.0
Ingersoll-Rand h	18 1/2	-1/16	18 1/2	13 1/8	1,445	2.5
Lockheed	23	—	26 7/8	22 1/2	1,424	4.8
Lowe's h	1840p	—	1273p	815 1/2p	758.3	1.4
Merrill Lynch	26 1/4xd	-11/16	39 13/16	24 1/8	2,696	2.0
Morgan (JP)	31 7/8	+1/8	37 1/2	28 7/16	6,857	3.6
Morris (Philip)	40 13/16xd	-11/16	45 3/16	37 13/16	37,056	2.7
NYNEX	42 1/2	—	44 5/8	39 3/4	8,693	5.7
For Pacific Agricultural see Cadiz land Inc						
Pall	13 7/8	—	17 13/16	10 3/16	1,217	1.4
Pennzoil	23 3/8xd	-1/8	39 1/4	23 1/8	948.2	6.7
Quaker Oats	30 1/2xd	+1/8	40 1/16	28	2,279	3.0
Rockwell	11 7/8	-1/32	15 13/16	11 1/2	2,645	4.1
Rep NY	21 1/4xd	+1/16	26 1/16	20 7/8	1,131	2.4
Sears, Roebuck	20 1/16xd	-1/16	28	19 1/16	7,086	5.2
Sthwestern Bell	33 1/2	—	35 7/8	31 3/8	10,055	4.6
Sun Co	13 5/8xd	-1/16	18 7/8	13 1/16	1,419	7.2
Tenneco	18 3/4xd	-1/16	25 1/16	16 1/2	2,333	4.5
Texaco	32 7/8xd	-1/4	36 5/8	30 13/16	8,498	5.1
Time Warner	58 1/16xd	-3/16	62 1/8	46 1/2	5,416	0.9
♥Unitab	358p	—	387p	350p	325.1	—
Utd Tech	26 1/2xd	+1/16	31 3/4	26 1/8	3,223	3.6
For UtiTech see Decora Inds.						
☆URS Intl. 1c	0 3/4p	—	1 1/4p	0 1/8p	2.38	—
US West	20 1/8	—	21 13/16	18 3/4	8,259	5.5
Varity	890p	—	1056p	632p	222.1	—
Waste Manage	17 7/8xd	-1/32	28	17 7/16	8,857	1.3
Whirlpool	1996pxd	—	2799p	1874p	1,487	2.9
♥Woolworth	13 7/8	-1/8	18 1/4	13 7/8	1,809	4.2

CANADIANS

Notes	Price £	+ or -	1992 high	low	Mkt Cap£m	Yld Gr's
♥Abbot Energy	1 1/4p	—	2p	1 1/4p	—	—
Amer Barrick	1489p	-8	1842p	1268p	2,078	0.3
Bk Montreal	21 1/16	—	23 1/4	19 1/2	2,981	4.6
Bk Nova Scot	1012p	—	1178p	898p	2,882	4.7
♥BC Gas	707p	—	870p	683p	—	3.9
BCE	20	—	24 1/2	19 3/4	6,285	5.9
♥Brascan	720p	—	957p	704p	593.8	6.6
♥Breakwater	20 1/2p	-1/2	33p	6p	13.0	22.2
[illegible]						

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

CONTRACTING & CONSTRUCTION - Cont.

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING - AEROSPACE

[illegible]

ENGINEERING - GENERAL

[illegible]

ENGINEERING - GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INVESTMENT TRUSTS - Cont.

Notes	Price	+or -	1992 High	low	Yld Gr's	NAV	Dis or Pm(-)
■Scottish Inv......†	167½	-1	178	157	3.7	190.9	17.5
■ Warrants	28	—	38	24	—	—	—
■Scot Mortgage	149	-½	167	139	3.6	179.2	16.8
■Scot National Inc	89½	—	107	83½	14.1	—	—
■ Cap	21	-1	42	12½	—	16.0	-37.6
Stepped Pf......‡	141½	+½	141½	126	4.9	—	—
Zero Div Pf	187	+1	187	166½	—	—	—
Warrants	4	—	9	3½	—	—	—
Scot Value......ta	82½	—	84	48	3.8	82.4	0.6
Sec Alliance......†	1128	-2	1283	1118	4.1	1280.2	13.8
Second Market......s	239	-1	244	222	6.8	284.1	15.9
■Sec Tst Scot	85	-½	75½	69	6.6	69.8	6.2
Select Assets	86½	-½	102½	86½	1.3	125.3	31.0
Eq Ind Sert	116	-1	123	109	4.9	—	—
Eq Ind Sert	116xd	-1	123	109	4.9	—	—
Shires	223	-1	249	195	11.6	215.8	-3.3
11pc Cv Ln '03/04	£104½	-1	£119½	£95½	10.5	—	—
Siam Select	71	+1	91	70	1.9	89.0	21.3
Warrants	12	+1	21	11	—	—	—
■Smaller Cos	78	—	85	67	4.8	86.5	9.8
Warrants	15	—	29	10	—	—	—
■Sphere Inc......N	13	—	29	13	31.8	18.1	31.2
Zero Div Pf	74¼	+½	77¾	65¼	—	—	—
Warrants	0¾	—	3½	0¾	—	—	—
Stratton	145½	-½	188	147	1.5	177.3	18.1
Suoll	44	-1	55	39	3.8	109.5	59.8
■TR City of Lon......M	113	-½	127½	97½	6.6	110.7	-2.1
■TR Euro Growth......s	78	-1	90	78	1.7	96.6	18.3
Ptg Sub......s	44	—	64	43	3.9	—	—
■TR Far East Inc......M	88	+1	96	78	8.6	100.4	11.4
Warrants	17	+1	22	12	—	—	—

MEDIA - Cont.

Notes	Price	+or -
‡WTR	56	—
■WPP	45	—
■ Warrants	3½	-¼
8¼p Cv Pf	33	-1
Watmoughs	498	—
■Yorkshire TV	177	—

MERCHANT BANKS

Notes	Price	+or -
■Ansbacher (H)	28	—
Barings 8pc Cu 2nd Prf	99¼	+½
9¼pc Non-Cum Prf	119	+1
Brown Shipley	69	-1
Close Bros......†	248	—
■Hambros	242	—
7½pc Cv Pf	108	—
Joseph (L)	338	—
■Kleinwort Benson	260	—
■Rea Bros	39	—
Schroders	1263	-2
N/V	1078	—
■Singer & Fried	80	—
■Warburg (SG)	480	+1
6pc Cv Pf	161	—
Wintrust	218	—

METALS & METAL FORMING

MISCELLANEOUS

INVESTMENT COMPANIES

MEDIA

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIAL MATERIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

Notes	Price	+or -	1992 High	low	Mkt Cap£m	Yld Gr's
Hemlo Gold C$	£4⅜	—	£5½	£3¾	421.8	2.1
Homestake $	£7	—	£9⅞	£6¼	896.3	1.5
■‡†Ivernia West I£	34	+1	53	33	10.8	—
■‡†Kells Mins I£	28	—	42	20	0.48	—
■‡Kenmare	3½	—	6½	3¼	3.36	—
Meling Res	31	-2	48	30½	3.42	—
‡†Navan Res I£	23	—	26	16	3.09	—
North West Expl A$	3	—	6	2	1.01	—
Oryx Gold $	60	—	103	51	—	—
Plateau	4	—	13	4	1.82	—
■RTZ	563	-10	669	469	5,541	4.7
‡Vizcaya	1¾	—	3	1	0.94	—
♥Western & Pac C$	11½	-4	80	7	6.31	—
‡Young Grp	29	—	110	4	3.01	17.3

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ■ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ), and non-UK stocks which are quoted on SEAQ International
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ● Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ‡ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially UK listed; dealings permitted under Rule 535(2)
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield, p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings.
v Subject to local tax.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1990-91.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1991.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1991-92.
N Yield based on prospectus or other official estimates for 1992.
P Figures based on prospectus or other official estimates for 1991.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each security shown, subject to the Editor's discretion.

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

AUTHORISED UNIT TRUSTS

For Mayflower Mngmt see Sheppards UT Mngmt

Mercury Fund Managers Ltd (1000)H
33 King William St, EC4R 9AS 071-280 2060

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
American	5	123.1	123.1	130.8	-1.60	0.00
(Accum Units)	5	131.5	131.5	139.8	-1.70	0.00
American Opps	5	48.99	48.99	52.26	-0.94	0.00
(Accum Units)	5	49.67	49.67	52.99	-0.93	0.00
British Blue Chip	5	61.51	61.57	65.68	-0.39	4.06
(Accum Units)	5	70.36	70.43	75.13	-0.44	4.06
Cash *	0	101.8	101.8	101.8	+0.10	9.95
(Accum Units) *	0	123.2	123.2	123.2		9.95
European Growth	5	159.0	159.0	168.5	+3.20	0.54
(Accum Units)	5	168.8	168.8	178.8	+1.20	0.54
European Income	5	60.77	60.77xd	64.44	-0.95	3.64
(Accum Units)	5	75.40	75.90xd	80.50	-0.05	3.64
General	5	381.2	383.0	408.6	-1.60	2.97
(Accum Units)	5	708.4	711.9	759.4	-1.90	2.97
Global Bond	5	105.3	105.3	110.6	-0.79	6.68
(Accum Units)	5	112.3	112.3	118.0	-0.58	6.68

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Master Trust	6	86.01	86.01	91.49	-0.31	3.75
UK Equity†	6	105.99	107.65	114.52	-0.87	4.26
UK Equity Income	6	100.66	102.82xd	109.38	-0.80	5.86
UK Smaller Co's	6	89.81	93.23xd	99.18	-0.10	2.97
UK Equity Growth	6	99.63	101.29	107.75	-0.73	4.66
UK Index Tracking ◆ F	6	105.15	105.82	112.57	-0.30	4.63
Int'l Index Tracking F	6	90.87	91.65	97.50	+0.11	1.45
International	6	147.62	149.27	158.80	-0.26	2.11
European	6	121.11	122.15	129.95	+0.26	1.23
Pan European	6	91.60	92.69xd	98.61	-0.35	3.14
Nth American	6	112.69	113.77	121.03	-0.76	2.40
Nth Amer Smllr Cos	6	96.83	98.90xd	105.21	-0.25	0.00
Japanese	6	52.46	53.24xd	56.64	+0.34	0.00
Pacific	6	122.30	124.11xd	132.03	+0.22	1.14
South East Asian	6	124.58	126.56	134.64	-0.06	1.09
International Bond	6	103.20	103.32	109.91	-0.83	6.34
Gilt & Convertible	6	99.24	99.42xd	105.77	-0.26	8.17
Property F	6	68.06	70.07xd	74.54	-0.08	6.84
Cash Deposit Accum F	0	101.73	101.73	101.73	+0.06	9.53

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (◆) - 1101 to 1400 hours; (◆) - 1401 to 1700 hours; (◆) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071 - 379 - 0444.

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

Stewart Ivory Unit Tst Mgrs Ltd (1200)H

45 Charlotte Sq, Edinburgh 031-226 3271

	Init Chge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Grs
American ♥	5	251.7	251.7	267.7	-2.6	0.88
(Accum Units) ♥	5	296.3	296.3	315.1	-3.0	0.88
British	5	798.5	815.6	862.9	-4.7	6.26
(Accum Units)	5	1339.1	1367.8	1447.1	-7.9	6.26
European	5	334.1	336.1	358.6	+2.0	1.45
(Accum Units)	5	364.3	364.3	388.7	+2.1	1.45
Japan	5	90.10	90.10	95.77	+0.27	-
(Accum Units)	5	90.82	90.82	96.54	+0.27	-
New Pacific	5	199.9	200.4xd	213.4	....	1.65
(Accum Units)	5	207.7	208.2	221.7	....	1.65
Investment Tr Jun 12	0	135.6	138.6	146.9	+1.3	2.50
Mngd Equity	5	123.4	124.6xd	131.8	-0.3	2.94
Mngd Equity Acc	5	133.0	134.3	142.1	-0.3	2.94
Mngd Cash	0	95.61	95.61xd	95.61	+0.06	9.71
(Accum Units)	0	122.2	122.2	122.2	+0.10	9.71
Majority Stlg	1	99.70	99.70xd	100.70	+0.06	9.45
Majority Stlg Acc	1	112.46	112.46	113.59	+0.06	9.45

Storebrand Intl Inv Mngrs Ltd (1200)F

Admin. 5 Rayleigh Rd, Hutton, Brentwood, Essex
Enquiries: 0277 227300 Dealing: 0277 261010

	Init Chge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Grs
International Jul 1	0	47.71	47.71	48.21	....	1.59

Sun Alliance Unit Tst Mngmt Ltd (1200)F

St Mark's Court, Horsham 0403 232323

	Init Chge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Grs
Equity	6	599.1	607.0	649.2	-4.1	3.10
North America	6	75.41	75.41	80.65	-0.38	0.60
Far East	6	83.74	83.74	89.56	-0.28	0.45
W'wide Bond	6	47.05	47.05	50.05	-0.06	5.59
European	6	67.04	67.04	71.70	+0.18	1.92
Equity Income	6	65.58	65.58xd	70.14	-0.46	4.60
Portfolio	6	55.97	55.97	59.86	-0.29	1.84
UK Leading Cos	6	42.80	43.43	46.20	....	3.27
Broker Trusts						
Intnl Equity	6	43.60	44.02	47.08	+0.06	2.90

Sun Life of Canada Unit Mgrs Ltd (1000)H

[illegible]

Lazard Investors Ltd ‡‡

	Bid Price	Offer Price	+ or -	Yield Grs
Exempt Funds				
Small Co's Jul 8	£4003.7	4178xd	[illegible]	[illegible]
European Jul 8	£574.4	580.5	[illegible]	[illegible]
American Jul 8	£317.2	320	[illegible]	[illegible]
Japan Jul 8	£982.5	986.1	[illegible]	[illegible]
Pacific Jul 8	£136.3	139.6	[illegible]	[illegible]
W Midlands Jun 30	£126.30	141.40	[illegible]	[illegible]

Local Authorities Mutual Invest. Tst.*

2 Fore Street, London EC2Y 5AQ 071-[illegible]

	Bid Price	Offer Price	+ or -	Yield Grs
Property Jun 30	139.30	153.10	[illegible]	[illegible]
Equity Jun 30	856.95	868.95	[illegible]	[illegible]

* Available only to Local Authorities

M & G Securities Ltd

	Bid Price	Offer Price	+ or -	Yield Grs
Charibond Jul 10		106.92	[illegible]	[illegible]
(Accum Units)		664.61	[illegible]	[illegible]
MAAGIF Jun 30		41.50	[illegible]	[illegible]

Morgan Grenfell Investment Funds Ltd

	Bid Price	Offer Price	+ or -	Yield Grs
Exempt Funds				
UK Equity † Jul 7	128.0	137.4	[illegible]	[illegible]
UK Small Co † Jul 7	502.3	551.6	[illegible]	[illegible]
Fixed Interest † Jul 7	111.9	117.7	[illegible]	[illegible]
US Small Co Jul 7	136.0	145.6	[illegible]	[illegible]
Managed Jul 7	106.3	113.8	[illegible]	[illegible]
Intl Bond Jul 7	122.4	129.2	[illegible]	[illegible]
Japan Jul 7	56.54	60.25	[illegible]	[illegible]
European Jul 7	90.44	96.86	[illegible]	[illegible]
Nth American Jul 7	104.3	112.1	[illegible]	[illegible]

Morgan Stanley International

	Bid Price	Offer Price	+ or -	Yield Grs
UK Exempt	£1002.61	1060.94	[illegible]	[illegible]
Overseas Exempt	£909.23	967.85	[illegible]	[illegible]

Murray Johnstone UT Mngmt

[illegible]

INSURANCES

[illegible]

OTHER UK UNIT TRUSTS

[illegible]

Continued on next page

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Pearl Assurance (Unit Funds) Ltd

Premium Life Assurance Co Ltd

Professional Life Assurance Co Ltd

Prolific Life & Pensions Ltd

Prosperity Life Assurance Ltd

Providence Capitol Life Assc. Co Ltd

Provident Life Assoc Ltd

Provident Mutual Life Assc. Assn.

Provident Mutual Life Assc. Assn. – Contd.

Prudential Assurance Co

Prudential Corporate Pension Funds

Prudential Individual Life Funds

Prudential Individual Pension Funds

Reliance Mutual

J Rothschild Assurance PLC

Royal Heritage Life Assurance Ltd

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group

Scottish Amicable

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance plc

Scottish Provident Institution

Scottish Widows' Group

Shield Assurance Ltd

Skandia Life Assurance Co Ltd

Standard Life Assurance Company

Sun Alliance Group

Sun Life Unit Assurance Ltd

Swiss Life (UK) PLC

Swiss Pioneer Life Plc

TSB Life Ltd

Target Life Assurance Co Ltd

Teachers' Assurance Company Ltd

Templeton Life Assurance Limited

Tunbridge Wells Equitable

Wesleyan Assurance Society

Windsor Life Assur Co Ltd

Windsor Life Assur Co Ltd – Contd.

Woolwich Life Assurance Co Ltd

Zurich Life Assurance Co Ltd

OFFSHORE INSURANCES

AEtna Intl Assurance (Bermuda) Ltd

Albany International Assurance Ltd

CMI Insurance Co

Eagle Star Intl Financial Services

Equitable Life (International)

Equity & Law Intl Life Assce Co Ltd

Eurolife Assurance Group

Finance International Ltd

Hafnia Prolific International

Hansard International Ltd

Isle of Man Assurance Co Ltd

Lombard Intl Assurance Ltd

PanEurolife

Provident Capital International Ltd

Royal Life Intl. Ltd

Royal Life Intl. Ltd – Contd.

Royal Skandia Life Assurance Ltd

Sun Alliance International Life

Sun Life International Life

Target International Group

MANAGEMENT SERVICES

Bain Clarkson Asset Management

C F S Financial Mngmt

Capital Trust Financial Management

Chase de Vere PLC

ECU Futures Plc

Fairmount Financial Services Ltd

Independent Financial Group PLC

Knight Williams & Company Ltd

Macarthur & Dowie Invest Mngt Plc

Northam Blage & Partners

PRB Fund Management Ltd

Sharp, Hanson & Co

Tattersall Investment Mngt. Ltd

J. O. Ward Financial Services Ltd

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Money Funds

Fidelity Money Funds – Contd.

Lloyd George Management

Newport Investment Management

Orion Fund Limited

Royal Bank of Canada Offshore Fd Mgrs Ltd

CANADA (SIB RECOGNISED)

GBC Asset Management

GUERNSEY (SIB RECOGNISED)

AIB Grofund Inv Managers (Guernsey) Ltd

Adams & Neville Fd Mangt (Guernsey) Ltd

Baring Intl Fd Managers (Guernsey) Ltd

Equitable International Fund Managers Ltd

Guinness Flight Fd Mngrs (Guernsey) Ltd

Kleinwort Benson Intl Fd Mngrs Ltd

Lazard Fund Managers (CI) Ltd

Lloyds Intl Money Market Fund Ltd

M & G (Guernsey) Ltd

Prudential Fund Managers (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

Sarasin Funds Mngmt (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED**)

Adams & Nevile Fund Mngt (Guernsey) Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Bachmann Global Investment Fund Ltd

Credit Suisse Asset Management (Guernsey) Ltd

Hambros Fund Managers (CI) Ltd

Henderson Admin. (Guernsey)

Lazard Fund Managers (CI) Ltd

Nikko Capital Mngt (Europe) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

GAM Fund Management Ltd

Hafnia Prolific International Mngmt Ltd

Swiss Life Investment Fund

IRELAND (REGULATED**)

Bank of Ireland Unit Managers Ltd

BT Asset Management (Ireland) Ltd

Hambros Fund Managers (Ireland) Ltd

ISLE OF MAN (SIB RECOGNISED)

Allied Dunbar Intl Fund Mgrs (1600)F

Asset Global Funds Ltd

CMI Fund Managers (IoM) Ltd

Equity & Law Intl Fund Mngrs Ltd

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Gartmore Fund Managers (IoM)						
PO Box 32 Douglas, IoM 0624 627610						
Intl Grth	5¼	467.3	467.3	500.7	+0.9	0.9
Leopold Joseph Fund Mngrs (IoM) Ltd						
PO Box 52 Athol St Douglas IoM 0624 661020						
LJ International	5¼	89.06	89.06	95.80	-0.34	-
Mercury Fund Managers IoM Ltd						
11 Hill Street, Douglas IoM 0624 662295						
Merc IoM Fund	5	101.3	101.3	108.1	(z)	6.2
Merc Intl Bond	5	50.71	50.71	53.31	(z)	8.6
Sun Life Management (IoM) Ltd						
PO Box 178, Douglas, IoM 0624 622444						
Secure High Income	6	£1.0576	1.0576	1.1338	-0.0001	7.94
Unibank Scandinavian Fund Ltd						
23 Bucks Road, Douglas, IoM 06246 26494						
Scandinavia Fd	5	-	132.39	141.12	.....	1.0

ISLE OF MAN (REGULATED)(**)

	Bid Price	Offer Price	+ or -	Yield Gross
ATC Fund Management (SG) Ltd				
SG International	$10.89		.....	-
Appleton Financial Advisors Ltd				
Appleton Capital Trust	95.0	100.0	.....	-
CMI Fund Mngrs (IOM)				
Traders Fund Ltd H*	$17.16	18.55	.....	-
*Dealings Wednesday				
City Financial Admin (IoM) Ltd				
Beckman Option & Warrants	0.49	0.57	.....	0.00
Beckman Option & Warrants $	$0.94	1.08	+0.07	0.00
Beckman Reserve Assets	107	107	+1.00	2.64
Duncan Lawrie Inv. Mgt. Ltd				
DL Sterling	124.0	130.3	.....	5.2

	Bid Price	Offer Price	+ or -	Yield Gr's
Equitilink International Mngt Ltd				
First Aust. Prime Inc Inv Co Ltd NAV July 9 C$13.09xd				
First Aust. Prime Inc Inv Co Ltd NAV July 9 US$10.97xd				
NAV Diluted to reflect exercise of all Wrnts C$12.78xd US$10.71xd				
Fidelity Investment (CI) Ltd				
Sterling American	£2.469	2.599	.....	-
Fleming Group				
Robert Fleming Management (Jersey) Ltd				
Deutschland Inv Co NAV	DM16.59		(z)	-
Foreign & Colonial Mngmt (Jersey) Ltd				
Hypo Foreign & Colonial Reserve Asset Fd Ltd				
US$ Cash	$10.74		+0.01	-
Sterling Cash	£12.06		.....	-
US$ Bonds	$15.18		.....	-
Multicurrency Bonds	$20.66		+0.09	-
Sterling Bonds	£13.90		+0.01	-
D Mark Bonds	DM10.59		-0.01	-
Ecu Bonds	Ecu11.64		-0.03	-
UK Equities	£10.10		-0.04	-
US Equities	$16.48		+0.04	-
Japanese Equities	Y980		-0.06	-
Contl Euro Equities	DM16.92		+0.03	-
UK Negative Equities	£12.96		-0.11	-
US Negative Eq.	$10.11		-0.02	-
Japanese Negative Eq.	Y1058		.....	-
Cont Eur Negative Eq.	DM-		.....	-
UK Geared Equities	£-		.....	-
US Geared Equities	$10.23		.....	-
Japanese Geared Eq.	Y-		.....	-
Contl Euro Geared Eq.	DM-		.....	-
John Govett Management (Jersey) Ltd				
Ralph's Eqy Co NAV July 9	$10.34		.....	-
F and Scales Fd NAV Jul 10	$8.76		.....	-
Paragon Fd NAV Jun 30	$10.54		.....	-
Paragon Redemption	$9.91		.....	-
Hungarian Inv Co Jun 30	103.42		.....	-

For Holborn Fund Mngrs see Prudential Fund Mngrs

INVESCO MIM International Limited

[illegible]

	Bid Price	Offer Price	+ or -	Yield Gross
Aetna Malaysian Growth Fd (Cayman) Ltd				
NAV July 6	$9.4809		.....	-
Alliance Capital				
International	$14.94	15.81	+0.15	-
International Class B	$14.76	14.76	+0.14	-
Quasar	$19.96	21.12	+0.24	-
Quasar Class B	$19.72	19.72	+0.23	-
Global Small Cap	$10.09	10.67	+0.09	-
Global Small Cap Class B	$9.96	9.96	+0.09	-
Canadian Fd	$5.15	5.45		-
Alliance International Currency Reserves				

	Bid Price	Offer Price	+ or -	Yield Gross
Global Asset Management – Contd.				
GAM High Yield	$129.38			-
GAM Hong Kong	$398.83			-
GAM International Fd	$194.62			-
GAM Japan	$595.39			-
GAM Nth America Fd	$131.78			-
GAM Money Mkt US$	$100.12		+0.01	-
Do Sterling	£100.37		+0.02	-
Do Swiss Fr	SFr100.31		+0.02	-
Do Deutschmark	DM100.36		+0.02	-
Do Yen	Y10013		+1	-
GAM Multi-Mngr-Alloc	$121.71			-

	Bid Price	Offer Price	+ or -	Yield Gross
Orbis Investment Management Ltd				
Orbis Global Eqty	$12.23	12.85	.....	-
Orbis Optimal Eqty	$17.50	18.39	.....	-
Orbis Leveraged Eqty	$17.52	18.52	.....	-
* Prices on July 9 Next Pricing July 16 Weekly Pricing				
Orbitex Bahamas Ltd				
Orbitex Nat Res Fd	C$8.1532	8.9685		-
Orbitex Growth Fund	$6.5203	7.1723		-
Orbitex Health & Environment	$4.6556	5.1212		-
ORIENT Growth Fd				

[illegible]

	Bid Price	Offer Price	+ or -	Yield Gross
Asian Warrants	$11.88	12.58	-0.01	-
European Warrants	$5.37	5.69	-0.11	-
Managed	HK$11.50	12.17	+0.04	-
Private Capital Tst	$21.13		+0.02	-
Wellington Fd Mngrs (Bermuda) Ltd				
Intnl Growth Fd	$13.63	14.32		-
Wells Fargo U.S. IT Fund				
Wells Fargo A Shs (z)	$11.20		-0.03	-
Wells Fargo B Shs (z)	$10.98		.....	-
Worldwide Limited				
NAV May 29	$96.18		...	-
Xiphias International Investment Fd Ltd				
Xiphias Int USD	$1.0810			-
Xiphias Int ECU	Ecu1.0273			-
Yamaichi Capital Mngmt (Guernsey) Ltd				
Thai Inv Fund	$10.11		-0.04	-

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. k Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. e Designated in Luxembourg as a UCITS (Undertakings for Collective Investment in Transferable Securities). z Offered price includes all expenses except agent's commission. y Previous day's price. ¶ Guernsey gross. # Suspended. ◆ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ◊ Yield column shows annualised rates of NAV increase. xd ex dividend.

(**) Funds not SIB recognised. The regulatory authorities for these funds are: Guernsey Financial Services Commission. Ireland Central Bank of Ireland. Isle of Man Financial Supervision Commission. Jersey. Commercial Relations Department. Luxembourg Institut Monétaire Luxembourgeois.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Sterling falls to 3-month low

STERLING fell victim to heavy selling on the foreign exchange markets yesterday, as dealers grew increasingly nervous that the Bundesbank will raise interest rates at its council meeting on Thursday, *writes James Blitz.*

The UK currency finished in London at DM2.8525, exactly two pfennigs down from Friday's close and nearly a pfennig below yesterday morning's opening. In later trading, it was down to a low of DM2.8489, a level last seen on April 8, at the height of worries over a possible Labour victory at the general election.

At the end of the day, the pound was more firmly rooted at the bottom of the European Monetary System grid, with a 2.18 percentage points differential between it and the next weakest currency, the Italian lira.

There was no hint from Germany yesterday as to whether the authorities will raise interest rates on Thursday or tighten the conditions under which banks can borrow money at the emergency Lombard rate. Traders, however, will not have been helped by a rise in call money rates in the German markets yesterday to 9.65-9.75 per cent, close to the Bundesbank's emergency funding rate of 9.75 per cent.

Dealers said the increasing uncertainty about Britain's interest rate policy was also undermining the currency. Although the prime minister reiterated the chancellor's commitment to the European exchange rate mechanism yesterday, the market is still unsure whether the authorities are prepared to stick to this policy, especially if it means raising rates again.

Mr Neil MacKinnon, chief economist at Yamaichi International in London, said: "There is a mismatch between rhetoric and action. We have recently seen the Bank of Italy raise rates as a consequence of being in the ERM. The market wants to know whether the British are prepared to do the same."

The dollar was the other victim of the D-Mark yesterday, falling to DM1.4780 from a previous close of DM1.4955. Yesterday, analysts highlighted political uncertainty in the US as a factor behind the dollar's weakness, swayed by the opening of the Democratic party's convention in New York.

There is also uncertainty about US economic indicators due out this week. Some analysts expect today's retail sales figures for June to be down 0.2 per cent, and tomorrow's industrial production figures to fall the same amount. The US unit further weakened in New York to end at DM1.4743.

The yen closed stronger against the dollar, helped by news that Japan's trade surplus in the first half of 1992 had widened to $49.03bn. Dealers were also influenced by newspaper reports suggesting that the Bank of Japan is not about to cut interest rates.

£ IN NEW YORK

Jul 13	Close	Previous Close
£ Spot	1.9290 - 1.9300	1.9220 - 1.9230
1 month	1.17 - 1.16pm	1.09 - 1.07pm
3 months	3.19 - 3.17pm	3.11 - 3.09pm
12 months	10.90 - 10.60	10.65 - 10.55

Forward premiums and discounts apply to the US dollar

STERLING INDEX

CURRENCY MOVEMENTS

CURRENCY RATES

OTHER CURRENCIES

Jul 13	£	$
[illegible]		
Korea(Sth)	1503.45 - 1527.70	784.00 - 790.20
Kuwait	0.55500 - 0.55700	0.28650 - 0.28880
Luxembourg	58.90 - 59.00	30.50 - 30.60
Malaysia	4.8115 - 4.8240	2.4970 - 2.4980
Mexico	5784.40 - 5797.10	3116.00 - 3117.00
N.Zealand	3.5245 - 3.5285	1.8280 - 1.8300
Saudi Ar.	7.1955 - 7.2725	3.7495 - 3.7505
Singapore	3.1020 - 3.1095	1.6105 - 1.6115
S.Af (Cm)	5.2735 - 5.2905	2.7415 - 2.7430
S.Af (Fn)	7.5945 - 7.6145	3.9260 - 3.9495
Taiwan	47.60 - 47.80	24.70 - 24.80
U.A.E.	7.0455 - 7.1230	3.6715 - 3.6735

Floating rate. Iran Official rate £121.40 $64.00

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Jul 13	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Portuguese Escudo	178.735	173.396	-2.99	5.73	49
Spanish Peseta	133.631	130.099	-2.64	5.36	45
Belgian Franc	42.4032	42.0853	-0.75	3.35	28
D-Mark	2.05586	2.04177	-0.69	3.28	32
Dutch Guilder	2.31643	2.30275	-0.59	3.18	20
Irish Punt	0.767417	0.766159	-0.16	2.74	-1
[illegible]					

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Pta	Ecu
£	1	1.929	2.852	241.0	9.627	2.577	3.217	2159	2.298	58.95	181.6	1.398
$	0.518	1	1.478	124.9	4.991	1.336	1.668	1119	1.191	30.56	94.14	0.725
DM	0.351	0.676	1	84.50	3.376	0.904	1.128	757.0	0.806	20.67	63.67	0.490
YEN	4.149	8.004	11.83	1000.	39.95	10.69	13.35	8959	9.535	244.6	753.5	5.801
F Fr.	1.039	2.004	2.963	250.3	10	2.677	3.342	2243	2.387	61.23	188.6	1.452
S Fr.	0.388	0.749	1.107	93.52	3.736	1	1.248	837.8	0.892	22.88	70.47	0.542
N Fl.	0.311	0.600	0.887	74.91	2.993	0.801	1	671.1	0.714	18.32	56.45	0.435
Lira	0.463	0.893	1.321	111.6	4.459	1.194	1.490	1000	1.064	27.30	84.11	0.648
C$	0.435	0.839	1.241	104.9	4.189	1.121	1.400	939.5	1	25.65	79.03	0.608
B Fr.	1.696	3.272	4.838	408.8	16.33	4.372	5.457	3662	3.898	100	308.1	2.372
Pta	0.551	1.062	1.570	132.7	5.301	1.419	1.771	1189	1.265	32.46	100.	0.770
Ecu	0.715	1.380	2.040	172.4	6.886	1.843	2.301	1544	1.644	42.17	129.9	1

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS

LIFFE US TREASURY BOND FUTURES OPTIONS

LIFFE BUND FUTURES OPTIONS

LIFFE EUROMARK OPTIONS

LIFFE ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS

LIFFE SHORT STERLING OPTIONS

LONDON (LIFFE)

CHICAGO

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1)

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
1.825	10.15	10.10	10.24	10.35	0.40	1.07	2.02	5.51
1.850	7.75	7.97	8.15	8.38	0.73	1.67	2.79	4.52
1.875	5.65	5.99	6.36	6.76	1.32	2.44	3.79	5.68
1.900	3.89	4.37	4.86	5.43	2.19	3.44	4.99	7.05
1.925	2.53	3.11	3.68	4.28	3.35	4.80	6.44	8.53
1.950	1.62	2.19	2.72	3.33	4.96	6.42	8.04	10.22
1.975	0.95	1.47	2.01	2.53	6.81	8.19	9.84	12.03

Previous day's open int: Calls 276,140 Puts 579,046 (All currencies)
Previous day's volume: Calls 24,445 Puts 30,171 (All currencies)

	Close	High	Low	Prev.
Sep	2493.0	2507.0	2487.0	2509.5
Dec	2539.0	2542.0	2548.0	2554.5
Mar	2575.0			2591.5

Estimated volume 6366 (9180)
Previous day's open int. 43008 (43078)

* Contracts traded on APT. Closing prices shown.

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth	3-mth	6-mth	12-mth
1.9295	1.9179	1.8977	1.8687	1.8205

BASE LENDING RATES

	%		%		%
Adam & Company	10	Credit Lyonnais	10	McDonnell Douglas Bnk	10
Allied Trust Bank	10	Cyprus Popular Bk	10	Midland Bank	10
AIB Bank	10	Duncan Lawrie	10	Mount Banking	10
● Henry Ansbacher	10	Equatorial Bank plc	10	NatWestminster	10
B & C Merchant Bank	10.5	Exeter Bank Limited	10.5	Northern Bank Ltd	10
Bank of Baroda	10	Financial & Gen. Bank	10	Nykredit Mortgage Bank	10.5
Banco Bilbao Vizcaya	10	● Robert Fleming & Co.	10	Provincial Bank PLC	14
Bank of Cyprus	10	Robert Fraser & Ptnrs.	10.5	● Rea Brothers	10
Bank of Ireland	10	Girobank	10	Roxburghe Bank Ltd.	11
Bank of India	10	● Guinness Mahon	10	Royal Bk of Scotland	10
Bank of Scotland	10	Habib Bank AG Zurich	10	● Smith & Williamson Secs.	10
Banque Belge Ltd	10	● Hambros Bank	10	Standard Chartered	10
Barclays Bank	10	Hampshire Trust Plc	13.5	TSB	10
Benchmark Bank	11	Heritable & Gen Inv Bnk.	10	Unibank plc	10
Brit Bk of Mid East	10	● Hill Samuel	10	● United Bk of Kuwait	10
● Brown Shipley	10	C. Hoare & Co	10	Unity Trust Bank Plc	10
CL Bank Nederland	10	Hongkong & Shanghai	10	Western Trust	10
Citibank NA	10	Julian Hodge Bank	10	Whiteaway Laidlaw	10
City Merchants Bank	10	● Leopold Joseph & Sons	10	Yorkshire Bank	10
Clydesdale Bank	10	Lloyds Bank	10		
Co-operative Bank	10	Meghraj Bank Ltd	10		
Coutts & Co	10				

● Members of British Merchant Banking & Securities Houses Association.

MONEY MARKETS

Fears of rate rise

STERLING'S steep slide on the foreign exchanges obliterated any bullishness that might have lingered in the cash and futures markets yesterday, with some dealers beginning to wonder whether Britain might be on the verge of an interest rate rise.

Even in the relatively inexpensive conditions that prevailed in the cash market yesterday, rates could not but fail to go up. A £1.05bn shortage forecast by the Bank of England at the start of the day was swiftly removed by dealers. An easier flow of money from the authorities, however, could not stop rates firming in the afternoon, as the pound sank to a DM2.8525 London close, later plumbing a low of DM2.8489.

UK clearing bank base lending rate
10 per cent
from May 5, 1992

Futures traders also had one of their busiest days of the year. The September contract fell 24 basis points to 89.85, a level which certainly dismisses all possibility of a cut in base rates before the autumn, and probably takes into account a rise. Trading in the contract was extremely heavy, reaching a volume of 37,323 lots. This price assumes that three-month sterling cash rates will be at 10.15 per cent in mid-September.

The market remains overwhelmed by fears that the Bundesbank will tighten monetary policy at its council meeting on Thursday. In the cash market, dealers decided to take out the shortage quickly. One discount house dealer said: "They simply did not want period rates to get any worse."

Another dealer said there was no incentive in the interbank market to offer cash at a discount. "We are now so resigned to rates not moving down before September that there will be no prizes for being clever, even if the Bundesbank does not tighten on Thursday."

By the close of trading, the yield curve reflected rates of 10⅛ per cent all the way out to one-year. Three-month money was up from a previous 10 1/16 per cent.

The Bank's operations were at the established rates of 9⅞ per cent for Bands 1 and 2 and 9 13/16 per cent for the repurchase agreement (repo). In the morning, the Bank purchased £50m of Band 1 bank bills, £25m in Band 2 and £812m in a repo for resale on August 3. The forecast was later revised to £1bn and in the afternoon the Bank purchased £113m of Band 1 bank bills.

FT LONDON INTERBANK FIXING

(11.00 a.m. July 13) 3 months US dollars		6 months US Dollars	
bid 3¼	offer 3⅜	bid 3½	offer 3⅝

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

4pm			
Prime rate	6	One month	3.40
Broker loan rate	6	Two month	3.25
Fed.funds	3¼	Three month	3.28
Fed funds at intervention	-	Six month	3.37
		One year	3.59
		Two year	4.36
		Three year	4.88
		Five year	5.93
		Seven year	6.47
		10-year	6.97
		30-year	7.68

July 13	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	9.65-9.75	9.60-9.70	9.60-9.70	9.65-9.75	9.65-9.75	9.75
Paris	9⅞-10	9⅞-10⅛	10-10⅛	10-10⅛	9⅞-10⅛	9.60
Zurich	7¾-8¼	8⅝-8¾	-	8¾-9	-	-
Amsterdam	9.43-9.50	9.42-9.50	-	9.42-9.50	-	-
Tokyo	4⅜-4⅝	4⅜-4⅝	-	-	-	-
Milan	14¾-14⅞	15⅛-15 11/16	-	15⅛-15⅜	-	-
Brussels	9⅛-9¼	9½-9⅝	-	9½-9⅝	-	-
Dublin	10⅛-10¼	10⅛-10¼	10⅛-10¼	10⅛-10¼	10⅛-10¼	-

LONDON MONEY RATES

Jul 13	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	10⅛	10	10⅛	10⅛	10⅛	10⅛
Interbank Bid	8	9¾	10	10	10	9⅞
Sterling CDs	-	-	10⅛	10⅛	10⅛	9⅞
Local Authority Deps.	10⅛	10⅛	10⅛	10	9⅞	9¾
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps	8½	9⅞	-	-	-	-
Company Deposits	-	-	10⅛	10⅛	10	9⅞
Finance House Deposits	-	-	10⅛	10	9⅞	9¾
Treasury Bills (Buy)	-	-	9⅞	9⅞	9¾	-
Bank Bills (Buy)	-	-	9⅞	9⅞	9⅞	-
Fine Trade Bills (Buy)	-	-	-	-	-	-
Dollar CDs	-	-	3.25	3.29	3.44	3.66
SDR Linked Dep. Offer	-	-	6⅛	6⅛	6¼	6⅜
SDR Linked Dep. Bid	-	-	6⅛	6⅛	6¼	6⅛
ECU Linked Dep Offer	-	-	10⅜	10⅜	10⅜	10⅛
ECU Linked Dep. Bid	-	-	10¼	10⅛	10¼	10

Treasury Bills (sell): one-month 9 13/32 per cent, three months 9 11/32 per cent, six months 9¼ per cent. Bank Bills (sell): one-month 9 13/32 per cent, three months 9 13/32 per cent; Treasury Bills, Average tender rate of discount 9.3294 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day June 30, 1992. Agreed rates for period July 26, 1992 to August 25, 1992. Scheme I: 11.29 p.c. Schemes II & III: 11.28 p.c. Reference rate for period May 30, 1992 to June 30, 1992, Scheme IV&V: 10.038 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 10½ from July 1, 1992: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month 6½ per cent; one-three months 9 per cent, three-six months 9 per cent; six-nine months 8½ per cent; nine-twelve months 8½ per cent. Under £100,000 7 per cent from May 5, 1992. Deposits withdrawn for cash 5 per cent.

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

CROSSWORD

No.7,898 Set by HIGHLANDER

ACROSS

1 Conservative right is twice in dire straits (6)
4 Turn over US state for popular description of poisoning (8)
9 Old, almost trivial, excuse (6)
10 Make an example of nine cats (8)
12 Pancake sent back – every bit of it has mould on (8)
13 Legal documents in corporate English drafts (6)
15 Stone circle: one circuit goes round (4)
16 Intellectual's breakfast had vitamin in it (7)
20 Discharge member's weapon (7)
21 Husband is given one to polish (4)
25 A French rugby player appearing in Open (6)
26 Conventional plant used when preparing soup (8)
28 Is England wrong ignoring English arrivals by sea and air? (8)
29 It covers us against appearing in it (6)
30 Calmed down if one walked about (8)
31 Put string along metal leg (4,2)

DOWN

1 Put into care originally for life (8)
2 Sweet keeps best under frozen conditions (3,5)
3 Spoil one Mark II (6)
5 Military vehicle's fuel container (4)
6 Mother has one, almost completely made from cloth (8)
7 Natural place to stay, having had a meal (6)
8 Flat note nevertheless (4,2)
11 Stopped up to promote first German edition (7)
14 Careful about it beginning allegedly at home (7)
17 Monkey business from head of military intelligence (8)
18 Created calm (8)
19 Aircraft is not ordered to ditch (8)
22 Stop carpet going up and down (4,2)
23 Private hospital has 151 supported by insurance contributions (6)
24 Agree with current yield (6)
27 Have a guess whose symptoms include the shivers (4)

Solution to Puzzle No.7,897

WORLD STOCK MARKETS

AUSTRIA

July 13	Sch	+ or −
Austrian Airlines	2,010	...
Creditanstalt Pf	465	−21
EA General	3,360xd	+30
EVN	833	−10
Jungbunzlauer	15,700xd	−550
OeMV	675	−62
Perlmooser Zement	1,320	−20
Radex Heraklith	552	−2
Reininghaus Brue	1,450xd	−24
Steyr Daimler	178	−4
Veitscher Magnesit	315xd	−5
Verbund (Br) A	453xd	+2
Wienerberger	4,500	−70
Z-Laenderbank	1,045	+1

BELGIUM/LUXEMBOURG

July 13	Frs.	+ or −
ACEC-Union Min	2,225	+15
AG Group	1,895	+90
Arbed	3,800xd	−100
BBL	3,460	−70
Bank Intl a Lux	11,500	...
Banq Gen Lux Pts	11,500	...
Barco	1,220	−22
Bekaert	12,550	−50
CBR Ciment	8,460	−30
CMB	2,195	−5
Cobepa	4,800	−50
Cobepa AFV 1	4,800	−10
Cockerill Priv	154xd	−2
Colruyt	4,640	−10
Delhaize Frs Lion	1,610	−15
Electrabel	4,700	−60
Electrabel AFV1	4,600	−30
Electrafina ACT	2,450	−50
GBL	3,165	−15
GBL AFV 1	3,150	...
GIB Group	1,462	+4
GIB Group AFV	1,384	...
Gechem	332	−8
Gechem AFV	318	...
Generale Banque	6,400	...
Gen Banque AFV1	6,250	−10

FRANCE (continued)

July 13	Frs.	+ or −
CGIP	1,069	
Canal+	1,177xd	
Cap Gemini S	260	
Carnaudmetalbox	178	
Carrefour	2,650	
Casino	147	
Cetelem	765	
Chargeurs	1,169xd	
Club Mediterranee	471.70	
Cogifi	290xd	
Coparex	615xd	
C C F	177.50	
Cr Fonc France	816	
Cred Lyon (CI)	540xd	
Credit Nationale	900	
Damart	3,220	
Docks de France	400	
Dollfus Mieg Cie	324.50	
EBF	865	
Eaux Cie Genl	2,258xd	
Ecco	426xd	
Elf-Aquitaine	355.80xd	
Elf-Aquitaine Certs	246xd	
Eridania B-Say	647	
Eridania B-Say CI	500	
Essilor Int	414xd	
Etex	2,010	
Eurafrance	1,305	
Eurocom	635	
Euro Disney	105.80	
Finextel	106	
Fonc Lyonnaise	581	
From G et Anv	3,433	
GTM-Entrepose	409xd	
Gal. Lafayette	1,900xd	
Gaumont (Soc.N)	469	
Geophysique	702xd	
Hachette	117	
Havas	489.10	
Imetal	320	
Imm de France	760	
Immobanque	598	
Immob Phenix	120xd	
Industrielle	5,990xd	
Interbail	406.10xd	

CANADA

INDICES

NEW YORK

DOW JONES	Jul 10	Jul 9	Jul 8	Jul 7	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	3330.56	3324.08	3293.28	3295.17	3413.21 (1/6)	3172.41 (2/1)	3413.21 (1/6/92)	41.22 (2/7/32)
Home Bonds	101.11	100.94	100.71	100.50	101.11 (10/7)	98.41 (20/3)	101.11 (10/7/92)	54.99 (1/10/81)
Transport	1303.25	1301.57	1289.61	1314.46	1467.68 (20/2)	1277.65 (26/6)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	218.64	218.08	217.64	216.45	225.59 (3/1)	200.74 (8/4)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 3355.96 (3345.42) Low 3304.89 (3292.47)

STANDARD AND POOR'S

	Jul 10	Jul 9	Jul 8	Jul 7	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	414.62	414.23	410.28	409.16	420.77 (15/1)	394.50 (8/4)	420.77 (15/1/92)	4.40 (1/6/32)
Industrials	485.94	486.00	481.07	479.64	499.27 (15/1)	470.91 (8/4)	499.27 (15/1/92)	3.62 (21/6/32)
Financial	36.65	36.28	35.93	36.02	36.65 (10/7)	32.40 (8/4)	36.65 (10/7/92)	8.64 (1/10/74)
NYSE Composite	227.88	227.55	225.49	225.15	231.85 (15/1)	217.92 (8/4)	231.85 (15/1/92)	4.46 (25/4/42)
Amex Mkt. Value	382.32	381.84	379.86	380.26	418.99 (12/2)	374.04 (26/6)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	567.80	564.75	557.57	557.41	644.92 (12/2)	547.84 (26/6)	644.92 (12/2/92)	54.87 (31/10/72)

	Jun 26	Jun 19	Jun 12	year ago (approx.)
Dow Industrial Div. Yield	3.14	3.14	3.03	3.16

	Jul 8	Jul 1	Jun 24	year ago (approx.)
S & P Industrial div. yield	2.68	2.66	2.72	2.96
S & P Indl. P/E ratio	28.45	28.74	28.14	16.95

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Telefonos	2,472,100	45¼	+ 1¼
Citicorp	2,107,800	21⅛	+ ⅛
Glaxo	2,043,200	26⅜	- ⅛
Service Me	2,018,800	8⅞	- ⅛
Toys R Us	2,016,300	35¼	+ ¼
Boeing	1,811,000	39⅛	- ⅞
Union Carbide	1,639,200	12¼	- ⅛
Philip Morris	1,554,200	79⅛	- ¼
Conner Per	1,478,800	20⅛	+ 1⅞
Adv Micro	1,424,900	8⅛	+ ⅛

TRADING ACTIVITY

† Volume (Millions)	Jul 10	Jul 9	Jul 8
New York SE	164.750	209.325	200.020
Amex	8.022	9.888	9.550
NASDAQ	151.505	175.838	161.625
NYSE			
Issues Traded	2,289	2,284	2,293
Rises	1,004	1,234	805
Falls	675	500	895
Unchanged	610	550	593
New Highs	108	86	79
New Lows	26	30	50

CANADA

TORONTO	Jul 10	Jul 9	Jul 8	Jul 7	1992 HIGH	1992 LOW
Metals & Minerals	3203.87	3201.46	3172.31	3161.97	3238.87 (16/1)	2828.26 (8/4)
Composite	3447.55	3439.80	3418.40	3416.29	3666.00 (16/1)	3318.10 (8/4)
MONTREAL Portfolio	1832.71	1826.31	1814.48	1809.83	1937.59 (16/1)	1727.04 (8/4)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Jul 13	Jul 10	Jul 9	Jul 8	1992 HIGH	1992 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1638.9	1644.4	1642.1	1651.4	1684.50 (22/5)	1545.30 (9/4)
All Mining (1/1/80)	721.7	723.8	719.8	721.2	736.80 (3/7)	660.30 (2/1)
AUSTRIA						
Credit Aktien (30/12/84)	362.06	369.86	373.50	376.21	458.57 (24/2)	362.06 (13/7)
Traded Index (2/1/91)	868.16	889.07	900.25	907.62	1099.43 (24/2)	868.16 (13/7)
BELGIUM						
BEL20 (1/1/91)	1166.20	1171.71	1168.08	1164.72	1235.40 (2/6)	1097.23 (8/1)
DENMARK						
Copenhagen SE (3/1/83)	318.47	318.14	317.34	318.07	365.29 (15/1)	316.58 (23/6)
FINLAND						
HEX General (28/12/90)	741.2	744.3	736.5	738.0	935.90 (24/2)	736.50 (9/7)
FRANCE						
CAC General (31/12/82)	(c)	506.98	502.90	506.62	555.93 (12/5)	475.53 (2/1)
CAC 40 (31/12/87)	(c)	1859.44	1861.84	1847.75	2077.49 (11/5)	1749.91 (2/1)
GERMANY						
FAZ Aktien (31/12/58)	687.08	693.85	694.50	694.45	725.26 (26/5)	643.26 (8/1)
Commerzbank (1/12/53)	1942.9	1962.5	1963.9	1963.3	2043.80 (25/5)	1813.80 (8/1)
DAX (30/12/87)	1736.50	1754.48	1757.64	1751.18	1811.57 (25/5)	1578.73 (10/7)
HONG KONG						
Hang Seng Bank (31/7/64)	6085.85	5981.36	5925.5	5981.91	6134.75 (1/7)	4301.78 (2/1)
IRELAND						
ISEQ Overall (4/1/88)	1283.43	1276.64	1267.03	1267.52	1469.57 (17/1)	1267.03 (9/7)
ITALY						
Banca Com. Ital (1972)	441.05	442.24	433.21	429.12	551.59 (6/2)	429.12 (8/7)
MIB General (2/1/92)	866.0	868.0	850.0	842.0	1086.00 (5/2)	842.00 (8/7)
JAPAN						
Nikkei (16/5/49)	17201.73	16783.72	16848.66	16600.26	23801.18 (6/1)	15741.27 (29/6)
Tokyo SE (Topix) (4/1/68)	1298.95	1283.58	1284.93	1274.13	1763.43 (6/1)	1196.19 (9/4)
2nd Section (4/1/68)	1893.88	1895.50	1888.91	1891.08	2459.85 (6/1)	1868.82 (30/6)
MALAYSIA						
KLSE Composite (4/4/86)	616.08	611.57	603.72	595.97	619.06 (20/2)	546.63 (14/1)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	298.1	300.2	300.3	297.9	314.90 (9/6)	274.00 (8/1)
CBS All Shr (End 1983)	303.7	205.1	205.2	303.5	215.50 (26/5)	192.40 (8/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	673.14	681.12	671.57	670.8	772.74 (18/5)	667.88 (25/2)
PHILIPPINES						
Manila Comp (2/1/85)	1444.73	1476.28	1435.52	1481.82	1580.95 (11/6)	1083.01 (17/3)
SINGAPORE						
SES All-Singapore (2/4/75)	400.76	401.36	400.63	399.37	416.99 (21/1)	370.13 (9/4)
SOUTH AFRICA						
JSE Gold (28/9/78)	1054.04	1072.0	1052.0	1076.0	1327.00 (21/1)	1006.00 (24/4)
JSE Industrial (28/9/78)	4250.04	4284.0	4234.0	4304.0	4689.00 (4/6)	4169.00 (2/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	512.54	523.88	523.07	531.79	691.48 (8/2)	512.54 (13/7)
SPAIN						
Madrid SE (30/12/85)	235.75	235.70	235.92	233.61	266.51 (28/2)	233.61 (8/7)
SWEDEN						
Affarsvariden Gen. (1/2/37)	888.1	897.3	885.1	877.5	1014.50 (11/5)	877.50 (8/7)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	836.4	841.1	835.1	839.6	883.40 (11/5)	748.50 (8/1)
SBC General (1/4/87)	633.0	637.8	633.1	635.3	682.30 (11/5)	601.10 (8/1)
TAIWAN**						
Weighted Price (30/6/66)	4312.38	4316.79	4337.99	4329.31	5391.63 (30/1)	4268.17 (11/5)
THAILAND						
Bangok SET (30/4/75)	734.46	739.13	743.11	729.84	832.39 (7/4)	667.84 (19/5)
WORLD						
M.S. Capital Int.(1/1/70) (S)	506.7*	502.6	502.6	500.8	542.10 (7/1)	467.50 (8/4)
Euro Top-100 (26/6/90)	897.53	903.73	901.38	993.55	976.56 (25/5)	870.31 (2/1)

**Saturday July 12: Taiwan Weighted Price: 4384.52. Korea Comp Ex. 519.50.
‡ Subject to official recalculation. *Calculated at 15.00 GMT
Base values of all indices are 100 except Austria Traded, BEL20, HEX Gen., MIB Gen., Euro Top-100, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500. (c) Closed. (u) Unavailable

TOKYO - Most Active Stocks
Monday 13 July 1992

	Stocks Traded	Closing Prices	Change on day
Fuji Heavy Inds	5.7m	400	+5
Ricoh Co	4.0m	582	+9
OKI Electric Ind.	3.9m	457	+20
Toshiba Corp	3.6m	666	+15
Taiyo Fishery	3.5m	495	+12
Meiji Milk Prod.	3.1m	987	+17
Suzuki Motor	2.7m	813	+8
Toa Steel	2.1m	1,230	+50
Mazda Motor	1.7m	475	+12
Sanyo-Kokusaku	1.7m	508	+7

4:00 pm prices July 13

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	11⅞	AAR Corp	0.48	3.6	21	409	13¼	13⅛	13¼	+⅛
26	18⅛	A L Labs A	0.18	0.8	86	104	21¼	20¾	21⅛	+⅛
68¾	53½	AMP Inc	1.52	2.8	22	708	55	54¾	54¾	
80¼	60⅞	AMR				1682718	64⅞	63¾	64⅝	+¾
2⅞	1⅞	ARX			2	8	1⅝	1⅝	1⅝	
53½	38¼	ASA	2.00	4.9	27	37	41	40⅞	41	
34¼	26⅛	Abbott Lab x	0.60	2.0	21	8542	29¾	29	29½	+⅛
13⅞	12	Abitibi Pr x	0.50	3.8	9	6	13	12⅞	13	
11⅜	10⅛	ACM Gvt In x	1.11	9.9		963	11⅛	11⅛	11⅛	+⅛
10⅞	9⅛	ACM GvOpp x	0.94	9.5		89	9⅞	9¾	9⅞	+⅛
9½	8½	ACM Gvt Sp	0.92	9.9		259	9⅝	9⅛	9¼	+⅛
11¼	10⅛	ACM Gvt Se	1.13	10.4		177	11	10⅞	10⅞	
9⅝	8⅝	ACM Man x	0.88	9.9		1081	u10	9½	9⅞	+¼
12⅞	10⅝	ACM Managd x	1.21	10.8		263	11⅛	11⅛	11¼	-⅛
11⅞	4¾	Acme Cleve	0.40	6.5	21	67	6⅛	5⅞	6⅛	+¼
8¼	4⅞	Acme Elect			4	16	5	4⅞	5	+⅛
39¼	18⅛	Acuson			11	1081	19	d18⅝	18⅞	-⅛
19½	18⅛	Adams Expr	1.63	8.6	0	43	19	18⅞	18⅞	+¼
49⅛	29½	Ad Micro	3.00	9.0		464	33½	33	33¼	+¼
21½	7½	Ad Micro P	3.00	35.3		39362	8¾	8⅛	8½	+⅛
9⅛	5	Advest Grp	0.16	2.6	62	89	6⅛	6⅛	6¼	
37½	33	Aegon ADR	1.68	4.5	6	23	u37¼	37	37	-¼
47	38⅛	Aetna Lf	2.76	6.4		82063	43⅝	42⅞	42⅞	-⅛
12	8⅝	Aflk A	0.24	2.1	12	908	11⅛	11⅛	11⅛	+⅛

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close	Prev. Close	Chng
[illegible]											

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close	Chng
53½	30½	Xerox4.125				z100	52¾	52¾	53	
28½	24⅞	Xtra 1.94	1.94	7.0		10	27½	27¼	27½	+¼
37	28½	Xtra Corp	0.80	2.3	12	83	35⅜	34¾	35⅜	+¾
28	25¼	Yankee Egy	1.65	6.0	12	4	27⅞	27⅝	27⅞	+⅛
1½	½	Zapata				405949	⅞	13/16	13/16	-1/16
11⅛	6¾	ZenithElec			3	122	7⅝	7⅜	7½	
19½	14½	Zenith Nat	1.00	5.4	8	3	18½	18⅜	18½	+⅛
7⅛	6	Zenix Inc	0.82	11.7		122	7	6⅞	7	
13¾	10	Zero Corp	0.40	3.6	18	165	11¼	11	11¼	+¼
38	27¾	Zurn Ind	0.88	3.0	31	302	29⅜	28⅞	29	
14⅛	12	Zweig Fund x	1.15	9.0		188	12¾	12⅝	12¾	
11	9½	Zweig Total x	0.96	9.4		1616	10¼	10	10¼	+¼

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices July 13

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							
Penril	0.80	27	23	12⅞	12½	12¾	-⅛
Pet Hi&P	1.14	16	15	14¾	14½	14¾	
Phil LD	0.21	16	1174	39	38¼	38½	-¼
Pitway A	1.10	16	4	29⅝	29⅝	29⅝	
Ply Gem	0.12	23	z100	11⅞	11¾	11½	
[illegible]							

NASDAQ NATIONAL MARKET

4:00 pm prices July 13

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

- W -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Warner Ea x	0.16	17	33	32	31¼	31½	-⅛
Warrntech		281	339	2⅞	2 11/16	2 13/16	
WashMuSB	0.48	9	1267	u26⅞	25¾	26⅞	+1
WshEnergy	1.40	20	187	22¼	21¾	22	-⅛
WestFedSL x	0.80	10	499	26¼	24⅞	25¼	-1
WattsIndA	0.28	18	24	47½	d46½	47¼	+¼
Wausau PM	0.34	16	185	43	40½	42	+⅜
WD - 40 x	1.80	16	71	40¾	39¼	39½	+¼
Weitek		3	345	3⅞	d3⅛	3⅛	-⅜
West One	1.04	13	173	42	41¼	41¾	+½
WstnPubl		19	339	16½	16⅛	16⅜	+¼
Westmark		51	478	51	49½	51	
WstnCoal	0.32	9	z0	16¼	16	16	
Wst SealA		25	z100	9¾	9	9	
Wetterau	0.68	12	5822	29⅛	29	29⅛	
Wicat Sys		145	34	4 5/16	4⅜	4⅛	-⅛
Willmette	1.68	27	1021	35¾	34	35¼	+¾
WmsSonoma		215	501	11¾	10¾	10¾	+⅜
Wiser Oil	0.40	90	32	15⅛	15	15⅛	+⅛
Wolohan L	0.28	15	12	20¼	19½	20¼	
Wolv Expl		0	69	1/16	1/16	1/16	-1/32
WwExWS9A			10	1/16	d1/32	1/16	
Wmngton	0.48	24	335	23½	23	23⅛	
WPP Group	1.11	1	1456	1⅝	1⅜	1⅝	
Wyman-Gdn	0.40	0	127	4	d3¾	3¾	-¼

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		23	1902	21	20	20¾	+⅜
Xoma Corp		7	918	13½	13	13⅛	-⅛
Yellow Fr	0.94	20	856	24⅝	24¼	24⅝	
York Rsch		4	1224	4⅞	4½	4⅝	-⅛
ZionUtah x	1.44	11	4	55	53¾	54⅛	

AMERICA

Dow stages recovery from early losses

Wall Street

AMID conflicting pressures, US share prices posted modest gains in light trading yesterday as markets staged a recovery from early losses linked to weakness in bond prices and the dollar, *writes Patrick Harverson in New York.*

At the close the Dow Jones Industrial Average was up 6.75 at 3,337.31, while the Standard & Poor's 500 was slightly firmer on balance at 414.86, up 0.24. The Nasdaq composite put in the day's best performance, rising 3.23 to 571.03.

Turnover on the New York SE was a meagre 149m shares, while rises outpaced declines by 963 to 742.

Overnight losses on foreign markets combined with continued weakness in the dollar, linked to speculation that the Bundesbank may raise German interest rates; and these two with declining bond prices as the 30-year benchmark bond fell ½ point, pushing the yield back up to 7.67 per cent. All of this undermined early sentiment but some positive quarterly earnings reports helped prices recover by mid-morning.

Bank stocks were a feature amid a string of well-received figures, although most of the early gains were erased later in the session by profit-taking. J.P. Morgan, after advancing more than $1 on news of a sharp rise in second-quarter profits from $231m a year ago to $385m, settled back to end unchanged at $61⅝.

Chase Manhattan had an early rise but fell later to finish down $1¼ at $27⅞ in active trading, after the bank reported a net profit of $152m in the quarter, up from $132m at the same stage of 1991.

First Chicago moved in a similar pattern, gaining ground before closing a net $⅜ off at $35⅞, having reported second-quarter profits of $68.2m, up 17 per cent from a year earlier.

Also in financials, Federal National Mortgage Association (Fannie Mae) rose early on, but ended down $¾ at $63¾ in turnover of more than ½m shares, after news of record three-month profits of $402m, compared to $382m in the previous quarter.

Alcoa firmed $⅛ to $73¼ after the company reported a second-quarter loss of $30.6m after it took charges of $104.7m related, among other things, to employment reductions.

IBM put on $¼ to $97⅞ on news that the computer group had entered an alliance with Siemens, of Germany, and Toshiba, of Japan, for the joint development of advanced semiconductor products.

On the Nasdaq market, Spartan Motors plummeted $6⅞ to $13¾ in heavy trading after the company warned that second-quarter earnings would come in between 28 and 34 cents a share, well below market expectations.

Century Medicorp jumped $3¼ to $19 after stating that it was negotiating the terms of a stock swap acquisition by another, as yet unnamed but larger, healthcare company.

Canada

TORONTO stocks closed steady after a day of light trading activity. The TSE 300 index edged up 1.7 to 3,449.2 and advancing issues led declines by just 272 to 244. Volume came to 18.9m shares.

The real estate group posted the day's biggest decline, 1.91 per cent. One of the sub-group's most heavily weighted stocks, Cambridge Shopping Centres, fell C$¾ to C$15½.

SOUTH AFRICA

JOHANNESBURG remained nervous after the ANC said that it would start a campaign of mass action next month. The overall index closed 35 lower at 3,448 and industrials shed 34 to 4,250. The gold index lost 18 to 1,054.

EUROPE

Frankfurt tax fears join dollar and interest rates

APPREHENSION ahead of the Bundesbank meeting on Thursday combined with a weaker dollar to depress bourses yesterday. Paris was closed for the Bastille holiday and will reopen on Wednesday, *writes Our Markets Staff.*

FRANKFURT added higher taxes to its fears, singling out carmakers after weekend newspaper stories saying that driving in Germany would become 30 per cent more expensive.

BMW dropped DM9.50 to DM571, Daimler by DM11.50 to DM746 and Volkswagen by DM8.20 to DM373.70 as the FAZ index shed 6.78 to 667.08 at midsession, and the DAX by 17.98 to 1,736.50 at the close. However, turnover fell from DM4bn to DM3.9bn and dealers said that both investment thinking, and trading was extremely short term.

Deutsche Bank made Daimler a trading sell yesterday. There was also a report that slowing growth, more international competition and technological advances could cause the German car industry to lose up to 200,000 jobs from its current total of 780,000.

After hours, the transport minister, Mr Günther Krause, denied a report that he wanted petrol taxes raised, although he defended his call for the introduction of motorway user fees.

Siemens fell DM7.10 to DM654.40 on talk was that Deutsche Bank was a seller. In retailing, Massa followed its former major shareholder, Asko, into troubled waters, reporting big extraordinary costs and halving the dividend; its shares fell DM9 to DM190.

MILAN drifted lower after a quiet start but was enlivened towards the end of the session when a domestic broker actively bought shares in Montedison and Generali. The Comit index fell 1.2 to 441.05 in turnover estimated at less than Friday's L117.6bn. Dealers said that 90-95 per cent of options were abandoned when they expired yesterday.

Generali closed L215 down at L27,445 before rebounding to L27,800 while Montedison closed L7 lower at L1,410 but reached L1,435 after hours.

In a generally easier telecom sector, Sip fell L23 to L1,175 on uncertainty about the effects of the government's plans to freeze tariffs. But Italcable, which manages telephone traffic between Italy and non-European countries, bucked the trend, adding L90 to L4,530.

At a presentation in London yesterday, the company said that outgoing calls rose 42 per cent in the last four months, which it attributed to the big improvement in the network as a result of heavy investment by Sip and Italcable. Regarding the current reform of the sector, the company forecast that its turnover would double if it were granted the European traffic previously managed by ASST. It estimated the cost of the transfer at roughly 1.6 per cent of its revenues for the first three years, plus payment for the proportion of the assets it would inherit from ASST, which it would depreciate over the next seven years. The big question mark, however, was what proportion of ASST's 18,000 employees Italcable would have to take on.

ZURICH fell on interest rate fears, the SMI index closing 15.0 lower at 1,841.5. Adia, the temporary employment agency, plunged again, the shares falling SFr27, or 9 per cent to SFr258 on a depressing interim report for 1992.

AMSTERDAM weakened on the dollar and interest rate uncertainty, the CBS Tendency index closing 1.4 lower at 203.7.

News that Tandy was to cease selling Philips' CD-I system through its US outlets contributed to a 40 cent decline in its shares which closed at Fl 28.80. Elsevier went against the trend, rising 60 cents to Fl 107.90.

BRUSSELS fell back with SGB losing BFr95 to BFr2,025 in volume of only 13,900 shares. The Bel-20 index ended 5.51 lower at 1,166.20 in turnover of BFr507m.

Solvay was one of the few stocks to rise on the day, advancing BFr250 to BFr12,500 in volume of just 4,575 shares.

MADRID gained ground with the general index advancing 0.5 to 235.75. Popular rose Pta60 to Pta10,930 after reporting a 19 per cent increase in first half consolidated net profit.

VIENNA continued to decline with OMV, the oil group, losing another Sch62 or 8.4 per cent to Sch675. The ATX index closed down 24 at 865.07, a fall of 2.7 per cent.

The weakness in OMV affected other stocks, with Creditanstalt preferred shares declining Sch21 to Sch465 and Bundesländer preferred shedding Sch20 to Sch630.

STOCKHOLM fell back, reversing a two-day recovery which had brought the market off its lowest level for the year which it reached last Wednesday. The Affärsvärlden General index fell 9.2 to 888.1, in thin turnover of SKr289m after SKr280m.

Astra, the session's most active issue with turnover of SKr38m, saw its A shares fall SKr4 to SKr546, while its B shares lost SKr5 to SKr527.

COPENHAGEN was shored up by shipping shares, selected banks and industrials as the CSE index rose 0.33 to 318.47.

In shipping, AP Moeller's D/S 1912 rose DKr1,000 to DKr92,500, while D/S Svendborg climbed DKr700 to DKr131,000. Among banks, Unidanmark rose DKr2 to DKr175, although Den Danske Bank slipped DKr2 to DKr266.

OSLO's all-share index lost 5.84 or 1.5 per cent to 391.05 in turnover of NKr138m. UNI Storebrand A lost NKr4 to Nkr28 on unconfirmed reports that the insurer was to seek new capital through a planned share issue of NKr1.4bn. Norsk Hydro fell NKr3 to NKr152.5.

ISTANBUL fell slightly in low volume. The 75-share index closed down 27.95 at 4,356.39.

FT-SE Eurotrack 100 - Jul 13

Hourly changes

Open	10.30am	11 am	12 pm	1 pm	2 pm	3 pm	close
1121.26	1120.73	1120.70	1121.63	1122.63	1122.28	1121.99	1121.63

Day's High 1123.27 Day's Low 1120.25

Jul 10	Jul 9	Jul 8	Jul 7	Jul 6
1129.14	1128.17	1121.53	1129.83	1134.09

Base value 1000 (26/10/90)

ASIA PACIFIC

Rally in futures market helps Nikkei advance 2.5%

Tokyo

A RALLY in the futures market prompted small-lot index buying in cash stocks, and the Nikkei average advanced 2.5 per cent, moving above the 17,000 level for the first time since June 12, *writes Emiko Terazono in Tokyo.*

The Nikkei gained 418.01 to close at the day's best of 17,201.73, after a low of 16,742.27 registered in the morning session. Volume, however, plunged to 180m shares from Friday's 310m. Rises outnumbered declines by 622 to 265, with 191 issues unchanged, while the Topix index of all first section stocks improved 15.37 to 1,298.95. In London trading the ISE/Nikkei 50 index eased 0.50 to 1,028.06.

In spite of the rise, traders were discouraged by the inactivity of investors. Mr Brian Tobin at S.G. Warburg Securities said: "It is like looking into a cloudy crystal ball – you cannot read too much into price movements." He added that investors will not become buyers until "fundamentally good reasons appear".

In contrast to the lethargic cash market, active buying supported futures. "There was constant large-lot buying which seemed to be short-covering," said Mr Masa Sato, derivatives trader at Dai-Ichi Securities.

Due to the lack of news, dealers continued to target short-term theme stocks. Taiyo Fishery, a leading fishery company planning to breed blue-fin tuna, rose Y12 to Y495 and Meiji Milk Products, currently developing an anti-Aids drug, climbed Y17 to Y987.

Low-priced high-technology and car issues, viewed as potential takeover targets, were in demand. Fuji Heavy Industries, the car concern currently restructuring itself, was the most active issue of the day and put on Y5 to Y400. Ricoh, the office automation company, added Y9 at Y582.

Banks were firmer on small-lot buying by investment trusts. Industrial Bank of Japan moved forward Y30 to Y1,700 and Sakura Bank Y18 to Y980.

Mazda Motor appreciated Y12 to Y475. Investors were encouraged by reports that the company plans to tie up with Mercedes-Benz in the development of anti-pollution cars.

Raito Kogyo, the civil engineering group, lost Y80 to Y2,050. The stock fell by its daily limit last Friday on reports of alleged defective construction on a dam project. Investors were further discouraged by reports that a two-month suspension from public works has been placed on the company.

In Osaka, the OSE average moved up 229.15 to 19,599.17 in volume of 4.8m shares. Nintendo, the video game maker, rose Y100 to Y11,300 as a stabilisation in currency movements made some leading blue chip exporters attractive.

Roundup

TOKYO'S recovery was not reflected elsewhere in the region.

HONG KONG saw heavy buying in HSBC as the bank replaced Midland Bank, its long-sought acquisition, in the FT-SE 100 index. HSBC closed at a 1992 high of HK$52, up HK$3. Brokers said HSBC's agreement to sell its 10 per cent stake in Cathay Pacific for HK$3.39bn also encouraged buying.

The sale also boosted Cathay's price, which jumped 70 cents to HK$12.60. The Hang Seng index closed 104.49, or 1.75 per cent, higher at 6,085.85, with turnover up from HK$3.34bn to HK$3.64bn.

KUALA LUMPUR rose further in active trade. Volume rose to 89.2m shares from 95m as the KLSE composite index added 4.51 at 616.08.

Utility Tenaga, which sparked the current rally when fund managers bought the stock aggressively last week, gained 10 cents to M$10.10 after an intraday low of M$9.70. Volume was a heavy 4.7m shares.

AUSTRALIA lost ground on poor retail trade figures, the All Ordinaries index slipping 5.5 to 1,638.9. Most retailers were hit, but QIW, embroiled in a hostile takeover battle with Davids Holdings, was a notable exception, rising 16 cents to A$6.76 as two strong buyers bid up the market.

SINGAPORE was pulled down by selective blue chip selling, particularly of Overseas Union Bank. The Straits Times Industrial index shed 4.17 to 1,482.88 in volume of 60.9m shares (51.2m). OUB fell 30 cents to S$5.10 in brisk volume of about 3m shares.

Sembawang Shipyard declined 20 cents to S$7.65 following a weekend fire aboard a chemical tanker under repair at the yard. The fire killed six people and injured 60.

TAIWAN fell in thin, nervous trade, the weighted index weakening 72.14, or 1.7 per cent, to 4,312.38 in turnover of T$19.8bn, against T$15.7bn in Saturday's shortened session.

SEOUL's index lost 6.96 to 512.54 on rumours that a second scandal was about to break. MANILA's investors took to the sidelines as the composite index retreated 31.55 to 1,444.73.

Bundesbank keeps investors guessing

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1992	Start of 1992	Start of 1992
Austria	-3.89	-8.95	-21.39	-0.55	-2.48	+0.16
Belgium	-0.29	-1.45	-1.23	+1.84	+0.62	+3.34
Denmark	-0.77	-2.89	-18.04	-10.79	-10.98	-8.58
Finland	-0.09	-1.51	-20.75	+0.40	-1.55	+1.10
France	-1.36	-3.99	+7.21	+5.63	+5.60	+8.46
Germany	-0.74	-1.93	+1.78	+8.39	+7.06	+9.94
Ireland	-0.82	-4.27	-6.63	-7.31	-7.96	-5.48
Italy	-0.43	-6.93	-19.91	-10.45	-11.53	-9.14
Netherlands	-0.23	-4.35	+3.71	+7.05	+5.63	+8.48
Norway	+1.31	-9.97	-24.47	-4.03	-5.49	-2.94
Spain	-1.61	-5.70	-9.89	-4.60	-5.74	-3.20
Sweden	-1.53	-4.29	-14.54	+5.32	+4.97	+7.80
Switzerland	-1.12	-1.29	+9.16	+12.00	+8.98	+11.92
UK	-0.59	-4.96	-0.54	+0.29	+0.29	+2.99
EUROPE	-0.80	-4.16	-0.86	+2.32	+1.70	+4.44
Australia	-1.44	-1.16	+4.47	-1.64	-6.02	-3.48
Hong Kong	-1.54	+2.96	+54.23	+42.24	+39.28	+43.04
Japan	-0.69	-3.21	-28.28	-25.76	-27.98	-26.03
Malaysia	+2.65	+3.26	-2.34	+6.39	+12.69	+15.73
New Zealand	+0.66	+0.70	+1.89	-0.63	-2.20	+0.45
Singapore	-0.10	-3.51	+5.96	+0.30	-2.10	+0.55
Canada	+0.51	+0.18	-3.63	-2.74	-8.08	-5.61
USA	+0.62	+1.14	+10.92	-0.64	-3.26	-0.64
Mexico	-4.78	-12.56	+34.35	+2.31	-2.39	+0.25
South Africa	-4.61	-6.28	-0.94	+1.15	-20.22	-18.07
WORLD INDEX	-0.25	-1.62	-4.74	-7.08	-9.43	-6.98

† Based on July 10th 1992.

By John Pitt

The weakness of the dollar and concern about the German economy subdued European bourses last week, while South Africa and Mexico fell sharply on local issues, leaving the FT-Actuaries World Index easier on the week.

Some analysts note that they expect activity in Europe to remain dull ahead of Thursday's meeting of the Bundesbank central council, at which it will review its monetary target for 1992. There are expectations that the Bundesbank will increase the minimum reserve requirements for German banks.

Austria was Europe's weakest bourse after Thursday's sudden resignation of OMV's chairman, Mr Siegfried Meysel, and the announcement that the oil group expected to report first-half losses of some Sch500m ($47m). This news propelled the market to a low for the year.

Only Norway managed to resist the downward trend, although there was no significant explanation. In its recent review of the market, Kleinwort Benson notes that shipping rates could pick up towards the end of the year, helped by, among other factors, the larger than expected scrapping of old vessels and increased western demand for oil.

The acquisition of a 54 per cent stake in Spain's largest cement manufacturer by Cemex, the Mexican cement company, was poorly received by foreign investors and the group saw its shares drop some 16 per cent. Latin American Securities comments that the negative reaction was partly due to the fact that Cemex intended to use cash from its recent equity issue to make new acquisitions rather than reduce its debt load.

South Africa remained depressed by the uncertain political situation, while Malaysia was the only Pacific Rim market to rise. Rumours that Magnum, the Malaysian gaming operator, will be awarded lottery franchises in southern China helped to boost activity.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY JULY 13 1992								FRIDAY JULY 10 1992					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1992 High	1992 Low	Year ago (approx)
Australia (69)	144.93	−0.5	111.36	114.47	111.37	129.22	−0.5	4.22	145.60	112.34	115.41	113.20	129.86	153.68	140.94	143.98
Austria (19)	165.55	−0.7	127.21	130.76	127.21	127.69	−2.1	2.29	166.79	128.69	132.22	129.68	130.49	186.70	162.48	178.60
Belgium (42)	149.38	+0.1	114.78	117.97	114.78	112.54	−0.7	5.47	149.16	115.09	118.22	115.97	113.29	149.38	135.87	126.63
Canada (115)	128.71	+0.0	98.90	101.66	98.90	111.19	+0.2	3.19	128.66	99.27	101.98	100.03	111.01	142.12	124.32	139.66
Denmark (35)	247.15	+1.2	189.90	195.21	189.91	191.52	+0.0	1.83	244.22	188.44	193.59	189.88	191.49	273.94	226.81	249.80
Finland (15)	79.41	+0.7	61.02	62.72	61.02	67.56	−0.6	2.09	78.88	60.86	62.53	61.33	67.98	89.80	73.64	94.34
France (104)	165.04	+1.2	126.81	130.34	126.81	129.18	+0.0	3.62	163.16	125.89	129.32	126.85	129.18	168.75	146.06	126.94
Germany (65)	129.14	+0.1	99.23	102.01	99.23	99.23	−1.1	2.32	128.99	99.53	102.26	100.29	100.29	129.32	114.67	106.50
Hong Kong (55)	256.26	+1.6	196.91	202.40	196.92	254.34	+1.5	3.23	252.27	194.65	199.97	196.15	250.54	259.55	176.36	164.92
Ireland (16)	160.96	+1.5	123.68	127.13	123.68	126.00	+0.5	4.31	158.62	122.38	125.73	123.32	125.42	173.71	151.78	142.08
Italy (79)	69.35	+1.2	53.29	54.77	53.29	57.97	+0.1	3.60	68.50	52.85	54.30	53.26	57.91	80.86	68.03	72.16
Japan (473)	102.25	+1.8	78.57	80.76	78.58	80.76	+1.4	1.05	100.47	77.52	79.64	78.13	79.64	140.95	89.70	130.63
Malaysia (69)	250.33	+1.0	192.35	197.71	192.35	240.78	+0.8	2.60	247.87	191.25	196.47	192.71	238.80	250.33	212.49	225.74
Mexico (18)	1416.91	+1.6	1088.72	1119.11	1088.76	4827.99	+2.0	1.24	1394.63	1076.07	1105.48	1084.33	4732.26	1789.77	1355.22	1115.18
Netherland (25)	166.34	+0.4	127.81	131.38	127.82	126.60	−0.7	4.43	165.62	127.79	131.29	128.78	127.49	166.34	147.88	134.27
New Zealand (14)	47.18	+0.0	36.25	37.27	36.26	45.82	−0.1	4.96	47.19	36.41	37.41	36.69	45.88	48.52	42.01	48.48
Norway (23)	173.65	+0.1	133.43	137.16	133.44	137.00	−1.4	1.65	173.53	133.89	137.56	134.92	138.91	192.95	161.26	193.48
Singapore (38)	220.85	+0.0	169.70	174.44	169.70	163.96	−0.3	2.02	220.89	170.43	175.09	171.74	164.49	229.63	192.76	191.71
South Africa (61)	200.80	−1.5	154.29	158.60	154.29	172.82	−1.2	2.99	203.93	157.35	161.65	158.56	174.98	263.60	197.04	253.92
Spain (49)	152.96	+1.0	117.53	120.81	117.53	109.21	−0.1	5.38	151.41	116.83	120.02	117.72	109.31	161.72	146.86	143.68
Sweden (29)	194.64	−0.3	149.56	153.74	149.57	154.66	−1.2	2.63	195.27	150.67	154.79	151.83	156.53	200.28	173.09	192.32
Switzerland (63)	113.04	+0.6	86.86	89.29	86.88	93.60	−0.9	2.29	112.33	86.67	89.05	87.35	94.43	113.51	95.99	91.31
United Kingdom (227)	190.54	−0.2	146.41	150.48	146.40	146.41	−0.6	5.06	190.88	147.28	151.29	148.39	147.28	200.07	165.85	166.59
USA (522)	168.89	+0.1	129.77	133.40	129.78	168.89	+0.1	2.96	168.79	130.23	133.80	131.24	168.79	171.66	160.92	154.84
Europe (790)	154.69	+0.3	118.86	122.18	118.87	119.50	−0.6	4.04	154.25	119.02	122.27	119.94	120.19	158.88	139.31	133.03
Nordic (102)	181.40	+0.2	139.38	143.27	139.39	137.55	−0.8	2.28	180.96	139.62	143.44	140.70	138.65	188.52	169.66	185.27
Pacific Basin (718)	108.82	+1.6	83.61	85.95	83.62	87.30	+1.3	1.42	107.11	82.64	84.91	83.28	86.20	141.97	94.40	131.81
Euro – Pacific (1508)	127.38	+1.0	97.87	100.60	97.87	100.61	+0.4	2.70	126.17	97.35	100.01	98.10	100.25	145.21	113.80	132.63
North America (637)	166.36	+0.1	127.83	131.41	127.86	164.96	+0.1	2.97	166.27	128.29	131.81	129.30	164.86	169.69	158.70	153.81
Europe Ex. UK (563)	132.81	+0.8	102.05	104.92	102.08	103.85	−0.6	3.32	132.00	101.85	104.65	102.65	104.43	132.81	121.81	112.89
Pacific Ex. Japan (245)	173.53	+0.6	133.34	137.08	133.36	154.68	+0.5	3.47	172.47	133.08	136.73	134.11	153.87	175.31	149.00	143.42
World Ex. US (1702)	129.00	+0.9	99.12	101.89	99.13	102.91	+0.3	2.70	127.87	98.66	101.37	99.42	102.56	146.91	116.45	134.73
World Ex. UK (1997)	136.84	+0.6	105.15	108.09	105.16	120.84	+0.3	2.52	135.96	104.91	107.78	105.72	120.43	150.58	127.21	137.98
World Ex. So. Af. (2163)	141.14	+0.6	108.45	111.48	108.46	122.74	+0.2	2.80	140.33	108.28	111.25	109.12	122.44	153.06	130.04	139.74
World Ex. Japan (1751)	163.47	+0.2	125.60	129.12	125.63	147.63	−0.1	3.38	163.21	125.93	129.38	126.91	147.84	165.40	153.20	147.07
The World Index (2224)	141.48	+0.5	108.71	111.75	108.72	123.21	+0.2	2.81	140.70	108.56	111.53	109.40	122.92	153.70	130.68	140.50

Constituent changes with effect from 14/7/92: HSBC Hldgs. will be deleted from Hong Kong and Midland Bank removed from the UK. HSBC Hldgs Ord.75p and HSBC Hldgs. HK$ 10 will be inserted into the UK. French market closed July 13.

FINANCIAL TIMES SURVEY

WORLD AUTOMOTIVE COMPONENTS

SECTION III

Tuesday July 14 1992

As car and truck makers seek ways to shore up their sagging profitability, the components industry is experiencing painful shock waves. Kevin Done assesses prospects for manufacturers facing up to an era of restructuring

Going gets even tougher

THE competitive screw is being tightened remorselessly on the world's automotive components suppliers, as car and truck makers seek urgently for ways to shore up their sagging profitability.

With bought-in components usually accounting for at least 50 per cent of the costs of a car – Ford purchases alone totalled nearly $53bn in 1990 – it is little coincidence that the vehicle assemblers look first to squeeze their suppliers, when the going gets tough.

The resulting shock waves that pass through the automotive components industry are being felt most painfully by the army of suppliers to General Motors, the world's largest vehicle maker, who are still trying to come to terms with the latest convulsions in Detroit, as GM seeks to staunch its record losses. GM is looking to global components sourcing as one of its main routes to short-term financial recovery.

Ominously for suppliers Mr Robert Stempel, GM's hard-pressed chairman, warned recently that the group would "use the global purchasing power of GM to reduce material costs and accelerate the return of our North American operations to profitability. We need to leverage the worldwide volume of GM to buy our material and components at best prices."

GM, the wounded elephant of the world auto industry, which last year suffered a massive $4.5bn deficit, the largest annual loss ever recorded by a US company, is finally being forced to take radical actions to put its house in order.

Mr Stempel says GM is "aggressively pursuing" five key business strategies to try to bring its sprawling North American auto operations back into profit. These include:

- instituting global sourcing,
- accelerating the implementation of lean production,
- significantly reducing the number of GM vehicle platforms (the basic underbodies that spawn a range of cars) with greater use of common components between vehicle lines,
- cutting back North American manufacturing capacity, and
- putting into effect an aggressive new product programme.

Some of these strategies will take time to show through in the profit and loss account, but the reduction of the purchasing bill can bear immediate fruit.

In recent weeks GM has established a worldwide purchasing organisation, headed by one of the key executives from its successful European operations, Mr Ignacio Lopez de Arriortúa. Mr Lopez, GM vice-president in charge of worldwide purchasing with effect from May 1, has also become a member of both of GM's North American and European strategy boards.

He has already stunned the US component industry by indicating, at a meeting last month with top executives of 600 suppliers and 300 GM purchasing managers, that existing GM contracts are open to new bids. It is thought that GM could be seeking more than the 7 per cent price cuts over three years it had already begun to demand last year. The carrot Mr Lopez is dangling is the opportunity to sell products to GM worldwide under long-term contracts.

According to Mr Stempel long-term contracts, some for the life of a new model, would provide suppliers with the necessary volume to support their capital investments to reduce costs and improve quality. "We're going to concentrate on suppliers who meet our cost and quality standards."

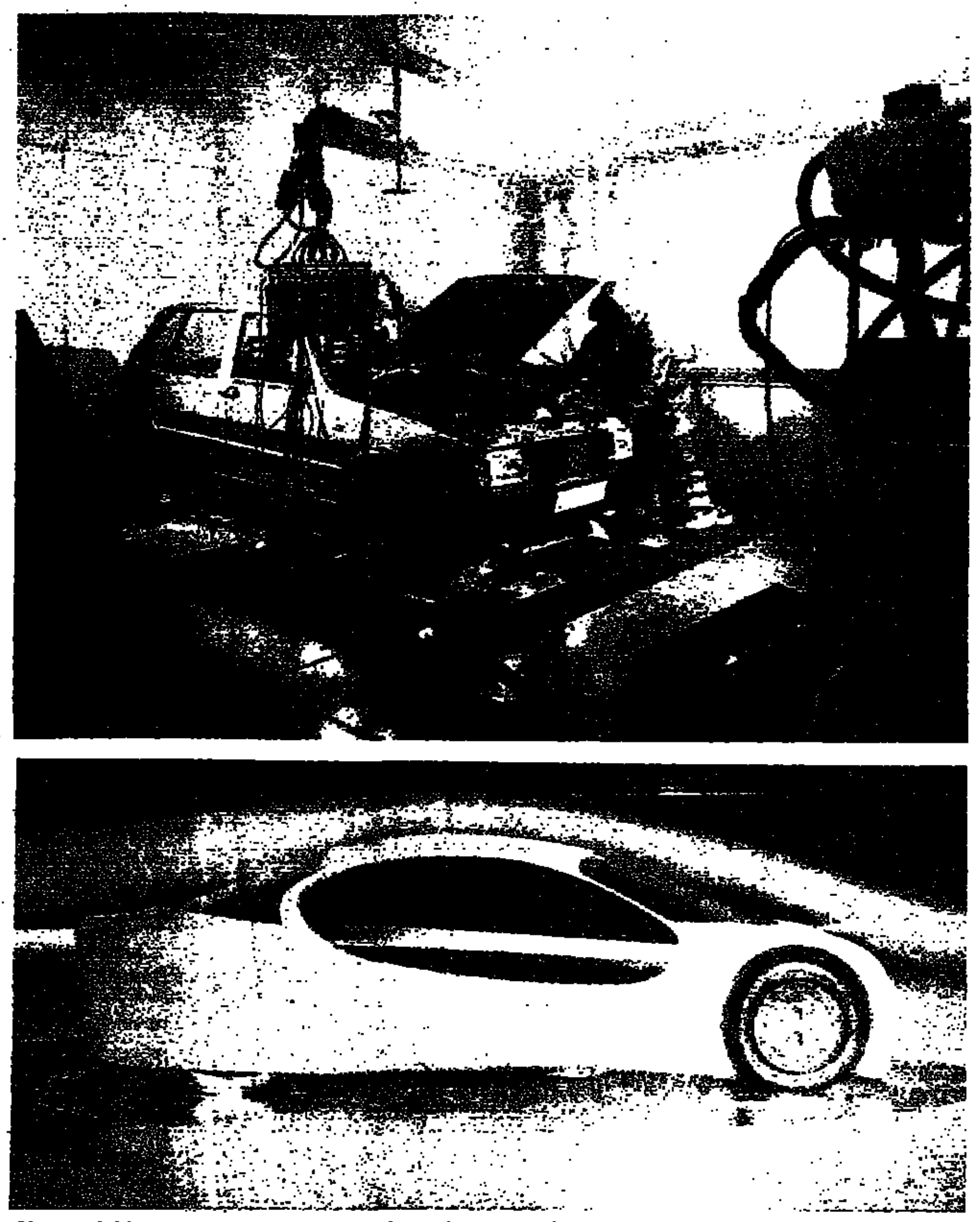
The pressures on GM are being felt by all vehicle makers, and the crucial relationship between the vehicle producers and their suppliers is being fundamentally transformed.

The leading vehicle makers are creating global operations, forcing the component producers to match this international expansion if they wish to maintain their central supplier roles. At the same time they are off-setting research and development spending by globally sourcing their component requirements, increasingly in the form of built-up systems.

The vehicle makers are using larger purchasing volumes – sometimes in alliances as in the case of Renault of France and Volvo of Sweden – in order to push down supply costs.

Renault and Volvo announced late last month far-reaching steps to achieve a genuine joint purchasing strategy "to control costs by reducing purchasing prices" with the aim of bringing the proportion of the two groups' total purchases from joint outside suppliers to 80 per cent from only 15 per cent today.

The vehicle makers are also drastically cutting the number of their suppliers to simplify their purchasing relationships and to delegate more responsibilities to their main so-called first tier suppliers.



Shape of things to come in all kinds of weather: a wind tunnel determines the lines of least resistance in tomorrow's car while an engineer tries a cold start in sub-zero temperatures (top)

Ford has reduced its worldwide supplier base by more than half from 1980 levels and intends to reduce it by an additional third by 1995. Ford of Europe has cut the number of its suppliers by 15 per cent to 900 since 1988 and plans to shrink the total to 600 by 1995.

In response, the component manufacturers are being forced into an era of drastic restructuring. The market leaders are seeking to establish a presence in all the principal vehicle-producing regions of the world with global representation in terms of production plants.

According to Mr Noël Goutard, chairman and chief executive of Valeo, the leading French auto components maker, "We must migrate with our European clients eastwards to countries such as Russia and China, and we must accompany the Japanese in their incursion into the west, Europe and the US, as well as build up our presence in Japan."

The component makers are having to concentrate their R & D resources to establish a competitive edge in principal technologies, while also gaining the necessary scale of production volumes to be able to compete on price and to ensure financial survival.

It is a high risk business. "Our fate as components and systems suppliers depends on the capacity to survive of each of our customers. In the merciless war being waged in the automotive industry, there are winners and losers," says Mr Goutard. "When the losers fall, their suppliers frequently stand to suffer heavy losses and the big investments made to serve the customer are reduced to ashes."

Leading component suppliers are taking on a considerably enhanced role as the vehicle makers seek to delegate more component and systems research and development work to the supply industry.

According to Mr Goutard, suppliers are "no longer just producers of parts for vehicle manufacturers. We have become providers of services including the development of products and systems with a high advanced research content. We supply manufacturers with logistics and we finance their inventory." He maintains that the financial pressures on the supplier sector have greatly increased. "Our customers make us finance inventory, developments, heavy R & D resources, tooling."

Longer-term partnerships are emerging linking the vehicle producers with favoured suppliers. Replacing the old adversarial relationships is not always proving easy, however, and a wide credibility gap often yawns between industry rhetoric and practice. "Purchasing policies still vary enormously from one manufacturer to another," says Mr Goutard.

The era of global expansion by the Japanese vehicle makers has set fresh challenges raising the vehicle manufacturers' requirements in terms of price, quality and delivery.

The spread of Japanese vehicle production plants to North America and now to Europe has also heralded an unprecedented level of direct involvement by the vehicle producers in their suppliers' operations and businesses. The vehicle makers take it for granted that they will share directly and immediately in efficiency and productivity gains made by their suppliers. Increasingly they are sending in their own advisory teams to work directly in suppliers' plants.

The expansion of the Japanese presence is also creating a new wave of trade conflicts, most importantly between the US and Japan. This year Washington and Detroit have joined forces to an unprecedented degree – highlighted by the acrimonious visit by President Bush to Tokyo earlier this year accompanied by a business delegation including all the chairmen of the big three US vehicle makers, General Motors, Ford and Chrysler.

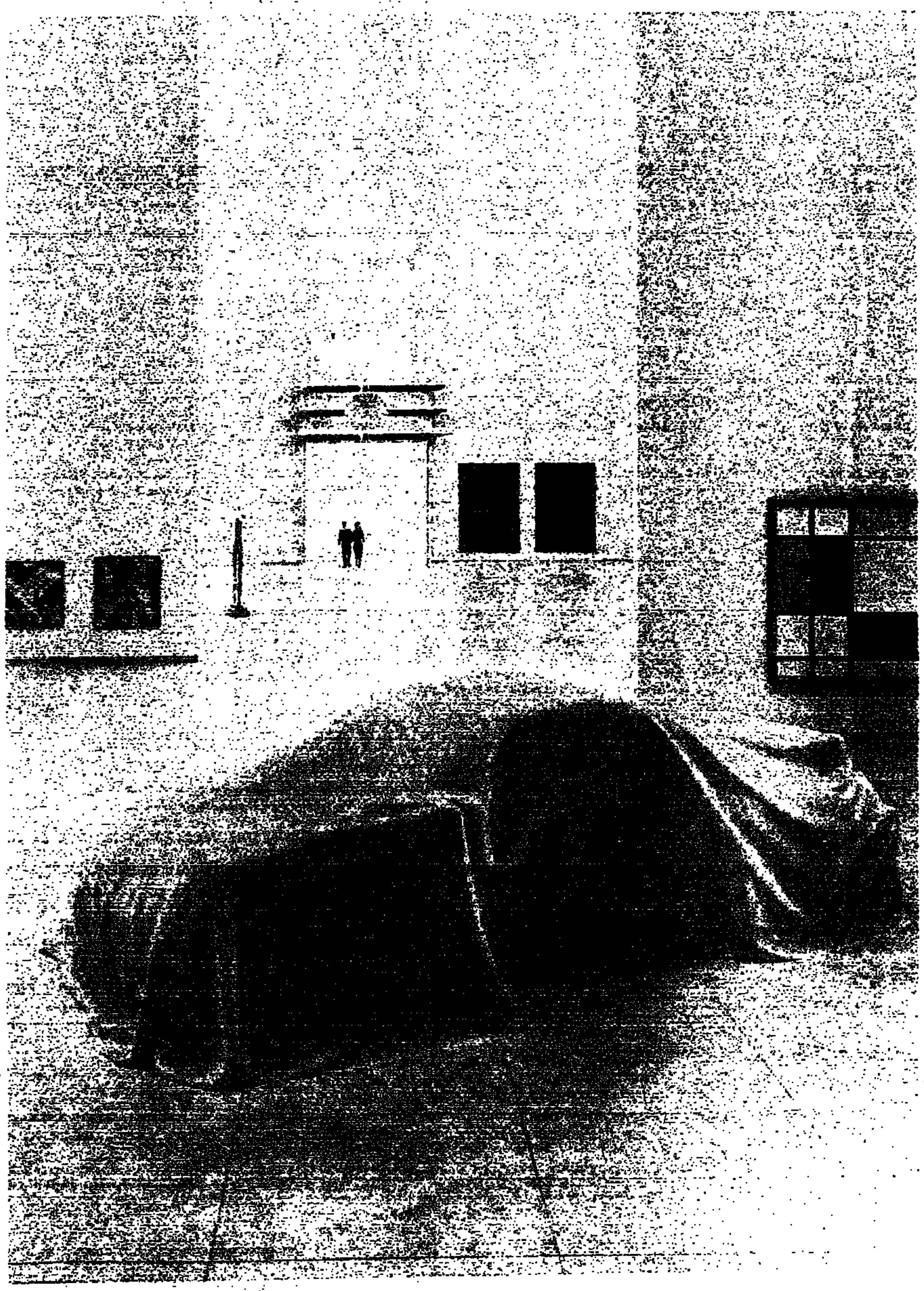
The US initiative has brought fresh promises from the Japanese motor industry to buy more US components both for use in Japan and in the Japanese car plants in North America, but the recent concessions will scarcely dent the chronic US automotive trade deficit with Japan.

Within North America, the

Continued on page 2

IN THIS SURVEY

Editorial production: Roy Terry



WORLD CAR sales are forecast to grow by 1.3 per cent to 34.6m this year, following a 2 per cent drop in 1991. The decline last year was the largest reduction in sales volume since the 1980-81 recession.

According to DRI Europe, the UK-based automotive analyst, car sales are now recovering in North America, the UK and Spain, and remain strong in Italy and Latin America.

DRI is optimistic about the outlook for car sales worldwide for 1993 and beyond, and expects demand to jump by 18.3 per cent in the five years to 1996, from 34.2m to 40.5m.

Sales in west Europe are forecast to rise to a record 15m in 1996, while car sales in the US are expected to rise by 4 per cent this year to 8.7m, and to recover to more than 10m by the mid-1990s. The US market fell last year to its lowest level since 1982 at 8.4m.

DRI suggests that the fastest growing segment in the US from 1991 to 1996 will be luxury cars, helped by important demographic changes.

The growth in the number of affluent households in the US was an important factor in persuading Toyota and Nissan, the Japanese car makers, to develop luxury car ranges in the second half of the 1980s, aimed primarily at the US.

World production expected to reach 40.7m vehicles by 1996

Sales acceleration expected

These cars were launched under the Lexus and Infiniti names in the US in 1989. Now, another Japanese car maker, Mazda, is also planning to enter the US luxury car market with a separate sales channel, to be called Amati, in 1994.

Mazda had been studying an entry into the US luxury car market for a couple of years, and has concluded that the prospects are too attractive to be ignored. It estimates that the number of affluent households in the US with an income of at least $75,000 (£45,000) a year is set to increase from 2m in 1988 to 2.5m in 1995.

In Europe, the German car market is forecast to fall sharply this year by around 11 per cent, to 3.7m from the record 4.2m achieved last year in the wake of reunification. Sales are also forecast to fall further in Japan this year.

The decline in the German market will eliminate the volume gains achieved elsewhere in Europe, leading to a 1 per cent fall in overall western European new car sales in 1992 to 13.4m, according to DRI.

The downturn in Germany, the biggest single market in Europe, is forecast to bottom out in 1993 at 3.5m, some 16 per cent or 700,000 cars below the 1991 peak, with demand recovering from 1994 to reach 3.8m in 1996.

In Europe, the tax payable on new car purchases has fallen in several countries – as well as in Japan and Australia. The UK has halved the 10 per cent special car tax, which is paid in addition to the 17.5 per cent rate of VAT, while VAT rates have fallen in France and in Belgium. The French VAT rate was reduced in April, to the standard rate of 18.6 per cent from 22.0 per cent previously, and has fallen sharply from the 33 per cent levied on new car purchases in 1987.

The European Community has agreed a VAT floor of 15 per cent for cars for the period from 1993 to 1998, but in the process of harmonisation of VAT rates no ceiling has yet been set, says DRI. However, it expects the Community to work towards a convergence of tax rates.

After growing by 38 per cent between 1988 and 1990, Japanese new car sales fell by 5 per cent last year to 4.9m. The DRI report* forecasts that demand will weaken further this year by 4 per cent to 4.7m, but will recover in 1993 to reach more than 5m again in 1995.

Despite progress made by car importers to Japan in recent years, import penetration remains low at only 4.5 per cent of Japanese new car sales in 1991; and, as new car demand falls in Japan, import sales have been declining at a faster rate than sales of domestically-built cars.

According to DRI, Japanese car sales weakened last year as a result of two main factors: consumer confidence has been damaged by a deterioration in growth prospects for the economy; while, at the same time, there is widespread concern about the future of land and property prices following recent falls. The tightening of parking restrictions has had a significant impact on mini-car sales.

In the Asia-Pacific region, both the South Korea and Taiwan markets have remained strong. South Korean new car sales have increased threefold since 1987, to reach 745,000 in 1991. DRI suggests that the economy will remain strong with car sales, rising by a further 50 per cent in the next five years to 1.13m in 1996.

New car sales in Taiwan were little changed in 1991, at 354,000, but demand is forecast to strengthen in the next five years with sales set to reach a record 500,000 in 1996.

According to the DRI study, new car sales in the European Community will grow from 12.6m in 1991 to 13.9m in 1996, with Japanese car manufacturers capturing around 30 per cent of the growth.

The Japanese share of EC car sales is forecast to rise from 10.9 per cent in 1991 to 12.5 per cent in 1996. Japanese penetration is expected to grow in most EC markets, but above all in the UK, where the Japanese share is forecast to rise from 11.6 per cent in 1991 to 16.9 per cent in 1996.

The capacity of Japanese car plants in Europe will probably exceed 700,000 units a year in 1996.

In the UK, the new Nissan Micra, Toyota Carina and Honda Synchro all start production this year. DRI forecasts that Japanese car production in the UK will rise to more than 600,000 in 1996, pushing UK car output to 2m, which would be 60 per cent, or nearly 800,000 units, above the 1991 level.

DRI says that, after a weak recovery this year to some 1.7m from 1.59m in 1991, new car sales in the UK will grow more strongly in 1993, by 12 per cent to 1.9m. The market is forecast to be above 2m again in 1994, but will not have recovered its 1989 peak of 2.3m until 1996.

Overall, in the next five years, world car production is forecast to increase by 6.5m vehicles to 40.7m in 1996. Some 2m of this increase will be accounted for by western Europe – including, significantly, local Japanese production – with 1.7m in North America, and only 500,000 in Japan.

Kevin Done

**DRI World Automotive Forecast Report. DRI, Wimbledon Bridge House, 1 Hartfield Road, London, SW19 3RU. Price £2,500.*

WORLD CAR SALES FORECAST (000s)*

	1991	1992	1993	1994	1995
WORLD TOTAL	34,202	34,649	36,748	38,143	39,643
Germany	4,158	3,687	3,471	3,552	3,646
Italy	2,340	2,324	2,256	2,287	2,345
France	2,031	2,187	2,253	2,369	2,418
UK	1,592	1,697	1,894	2,008	2,153
Spain	887	997	1,095	1,197	1,296
EC total	12,580	12,440	12,582	13,034	13,512
West Europe total	13,526	13,381	13,584	14,100	14,629
Eastern Bloc	1,630	1,713	1,957	2,033	2,326
US	8,373	8,695	9,805	10,032	10,175
Canada	871	916	987	1,040	1,100
Brazil	583	569	608	679	747
Mexico	392	421	439	447	482
Japan	4,868	4,674	4,614	4,970	5,108
South Korea	745	836	919	993	1,057

WORLD CAR PRODUCTION FORECAST (000s)*

	1991	1992	1993	1994	1995
WORLD TOTAL	34,286	34,958	37,053	38,339	39,868
Germany	4,659	4,652	4,541	4,574	4,612
France	3,187	3,118	3,404	3,478	3,529
Spain	1,773	1,730	1,808	1,858	1,954
Italy	1,634	1,627	1,580	1,695	1,758
UK	1,236	1,390	1,691	1,778	1,836
EC total	12,829	12,866	13,464	13,867	14,297
West Europe total	13,193	13,179	13,815	14,268	14,725
Eastern Bloc	1,695	1,859	2,028	2,236	2,531
US	5,733	6,236	6,762	6,798	7,066
Canada	1,066	1,071	1,322	1,408	1,454
Brazil	705	703	754	848	942
Mexico	573	708	757	793	841
Japan	9,753	9,618	9,862	10,005	10,216
South Korea	1,128	1,268	1,429	1,551	1,636

*1991 actual, 1992/95 forecast

Source: DRI World Automotive Forecast Report

GERMANY'S car producers are going through a highly unsettling time at the moment, but the components manufacturers can already tell them what the 1990s have in store.

As German labour costs – well above those in any other European country, except Sweden – continue to rise, the automotive industry is under increasing pressure from competitors in cheaper countries such as France and the UK which have made great strides in productivity in recent years.

At the same time, these and other countries such as Italy have experienced sharp cuts in their labour forces as the drive for greater efficiency gathers speed. Among the newer car-producing countries, Spain has also developed rapidly, partly

Alarm signals in Germany heeded

Exciting but testing times

with the help of Volkswagen.

In spite of the undoubted quality, styling, and environmental appeal of German cars, rising costs and increasing competition have put manufacturers and components producers in a tight corner. An added threat is the highly efficient Japanese production in the UK, with Nissan's plant in Sunderland setting new efficiency standards for the industry.

Thus, states Mr Achim Diekmann, managing director of the German motor industry association (VDA): "Germany's automobile sites could be particularly vulnerable as competition intensifies further." Productivity has not been rising fast enough, even though vehicle makers have been highly innovative in other ways. "The German automobile industry's production costs are too high, not just in comparison with Japan, but also with its European rivals".

The components manufacturers have already had to react to these alarm signals. To keep their own costs low, car and truck makers have put pressure on parts manufacturers to supply at ever lower prices. This makes it harder for German suppliers to earn enough profit in high-cost Germany and has forced many of them to shift some output abroad. It has also led to an increasing trend of concentration in the German parts industry, as companies seek wider groupings to enable them to produce more efficiently and on a larger and thus cheaper scale. The needs of the car makers, which increasingly want whole systems developed and delivered rather than single parts, are also met by this trend.

The German automotive components industry has an annual turnover of around DM50bn ($32bn) and is the third biggest in the world after those of Japan and the US. It is also the second biggest exporter. Thus its performance is vital to the success of German car producers.

So, too, therefore is its cost structure and its capacity not only to make technological advances but also to finance these. For as the sector comes under a growing cost squeeze and vehicle makers' demands become tougher, the shake-out is bound to become rougher. In a study of the German parts industry, SAC Enterprises of the UK states: "A period of rapid change should bring with it more rapid restructuring and bigger winners and losers."

This would take place as the industry underwent a speedier selection process – "selection in the sense of survival of the fittest".

One big German engineering company which is determined to increase its presence in the sector is Mannes-

Continued on page 3

European automotive components industry 1990

Rank	Company	Sales ($m)	Principal country of manufacture	Parent	Country of parent
Companies with annual European sales of more than $2bn					
1	Bosch	10,757	Germany	Robert Bosch	Germany
2	Michelin	10,311	France	Michelin	France
3	Philips	4,793	Netherlands	NV Philips	Netherlands
4	Continental	4,649	Germany	Continental	Germany
5	Valeo	3,936	France	Valeo	France
6	Magneti Marelli	3,370	Italy	Fiat	Italy
7	ZF	3,112	Germany	Zahnradfabrik Friedrichshafen	Germany
8	BASF	3,092	Germany	BASF	Germany
9	GKN	2,750	UK	GKN	UK
10	Pirelli	2,620	Italy	Pirelli	Italy
11	Lucas	2,446	UK	Lucas Industries	UK
12	ACG-GM	2,400	France	General Motors Corp	US
13	Goodyear	2,190	Belgium	Goodyear Tire Co	US
Companies with annual European sales of $1bn-$1.999bn					
14	Teves	1,807	Germany	ITT Inc	US
15	BTR	1,804	UK	BTR	UK
16	Allied-Signal	1,770	France	Allied-Signal Inc	US
17	TRW	1,770	UK	TRW Inc	US
18	Tenneco Automotive	1,731	Belgium	Tenneco Corp	US
19	Saint-Gobain	1,616	France	Compagnie de Saint-Gobain	France
20	T & N	1,496	UK	T & N	UK
21	Pilkington	1,262	UK	Pilkington	UK
22	Mahle	1,248	Germany	Mahle	Germany
23	SKF	1,226	Sweden	SKF	Sweden
24	VDO	1,222	Germany	VDO Adolf Schindling	Germany
25	BBA	1,215	UK	BBA	UK
26	Siemens	1,163	Germany	Siemens	Germany
27	Hella	1,139	Germany	Hella	Germany
28	Du Pont	1,075	Germany	Du Pont de Nemours & Co	US
29	Freudenberg	1,029	Germany	Carl Freudenberg	Germany
30	Epéda-Bertrand Faure	1,008	France	Epéda-Bertrand Faure	France

Source: The Economist Intelligence Unit

Japanese transplants drive UK component supplier standards

Hostile attitude is fading

BY THE mid to late 1990s, close to £2bn worth of UK and Continental European-sourced components are expected to be flowing annually into the UK car manufacturing plants of Nissan, Toyota and Honda.

Of this total, much the biggest proportion – around 70 per cent – is being sourced from either British components groups such as Lucas Industries, GKN and T & N, or the UK subsidiaries of Continental European components groups such as Robert Bosch of Germany and Valeo of France.

The situation is very different from the mid-1980s, when most chief executives of leading British component groups shared with Ford and other UK-based car makers an open hostility towards the prospect of Japanese car manufacturing in the UK.

They believed Nissan and other Japanese car makers who might follow it would bring in on their coat-tails their own components suppliers from Japan, provoking a bitter fight for survival in the European components industry as well as among its car makers.

Those most sceptical about the long-term intentions of the Japanese industry suggest that this still cannot be ruled out. They argue that the influx will simply take longer and be more subtle than in North America, where there are more than 300 Japanese suppliers for the nearly 1.7m vehicles now built in the US and Canada each year by Japanese "transplants", from which the indigenous US components industry protests loudly that it is being excluded.

Senior UK-based components group executives such as Sir David Lees, chairman and chief executive of GKN, and Mr Bob Dale, managing director of Lucas Industries' automotive division, are inclined to give such cynicism increasingly short shrift.

They assert that even if Japanese suppliers were to start arriving in force, they would find the leading players in the indigenous European industry much more formidable opponents than in North America.

Remarkably, in the case of many of the several hundred UK and Continental companies already supplying Nissan's Sunderland car plant, or preparing to supply Honda's Swindon and Toyota's Derby plants when commercial production starts later this year, this confidence is substantially due to their fast-developing contacts with the Japanese "transplants".

They have come to realise that the Japanese manufacturers' stated desire for long-term partnerships with their component suppliers represents considerably more than lip service to an ideal.

Those who have survived the long, painstaking selection process have found themselves adjusting to a relationship in which they have been faced with demands for unprecedented quality and consistency standards – but given close and continuing help and advice to achieve them.

The onus is being placed firmly on them, as suppliers, to undertake the design and development of components – with assurances that having done so, they will be long-term, sole suppliers.

They have had to adjust to the cultural trauma, for companies long used to an adversarial, price-haggling relationship with western car makers, of having to open their books to the Japanese companies to see how prices and costs have been arrived at – and how both might be lowered co-operatively, with car and component maker sharing the benefit.

As the Economist Intelligence Unit stresses in a new study* of the UK motor components industry, already it is the Japanese UK transplants which are driving the UK's component supplier standards.

And on the evidence of a study of Nissan's Sunderland suppliers published last year by the National Economic Development Office, much of the components industry still has a long way to go. It found Japanese component suppliers to have achieved a rejection rate of 50 per million, while the UK industry average is around one per 1,000.

Inevitably, the prospect of UK car production more than doubling compared with early 1980s levels to comfortably exceed 2m by the mid- to late-1990s (of which the Japanese "transplants" will account for more than one-third) has acted as a magnet for overseas components companies.

Some are indeed Japanese. Their principal ventures include a £65m Nippondenso plant about to start producing air conditioning systems at Telford, Shropshire, and in which Fiat's Magneti Marelli components subsidiary is a minority joint venture partner, and the virtual takeover by Nippondenso and Calsonic of all independent cooling systems manufacture in the UK, through their respective acquisitions of the former IMI Radiators and Llanelli Radiator.

However, the claim of Nissan, Toyota and Honda that only a relative handful of Japanese-owned or joint venture companies are supplying their plants is broadly correct. In each case, there are fewer than a dozen.

Robert Bosch of Germany and Valeo, the French components giant, are among those contributing to what the EIU report describes as a surge of inward investment "the like of which has not been seen for 40 years".

The tendency of new investments to be concentrated in specific areas is having a profound impact on some UK regions which have been hardest hit by industrial change and recession.

For example, they are transforming the economy and prospects of Wales, which is fast becoming one of the UK's most important motor components centres. According to figures from the Welsh Development Agency, Wales now hosts 150 such components companies, which between them employ 16,000 people.

"Flagship" ventures include Bosch's £100m green field plant to produce alternators near Cardiff, which expects to be making 5m alternators a year and employing 1,200 people by 1995. Output started last year. A few weeks ago, Volkswagen of Germany, one of the plant's customers, took delivery of the millionth alternator produced at the plant.

Meanwhile, Valeo has moved into a WDA plant in South Wales to produce air conditioning and heating systems. But one of Wales' biggest motor components projects is being provided directly by Toyota, through its £140m engine plant at Deeside, in North Wales. The plant is to go on stream within the next two months, and will eventually produce up to 200,000 engines a year, some of which are destined for export to Japan.

GKN's Sir David Lees can point to surging supplies to Japanese car makers as underlining his relative lack of concern about his company's ability to compete. He expects such sales to top £120m this year and to continue rising swiftly thereafter as Honda and Toyota output in the UK gets under way.

GKN already supplies Nissan with all its driveshafts at Sunderland, and its Hardy Spice facility in Birmingham will start supplying Toyota and Honda later this year. It has already established supplies with Japanese transplants in the US, its latest involvement contract being a $15m-a-year contract to supply constant velocity driveshafts for a new range of medium saloons Mazda is putting into production at Flat Rock, Michigan.

T & N, Lucas, Triplex, AB Electronics, BBA and BTR are among other groups forging increasingly close contacts with the Japanese, not just in Europe but in some other cases than GKN in North America, and even Japan, as well.

All the principal UK players recognise that, for survival through the 1990s, even a European business perspective is no longer enough. They must be capable of responding globally to a car industry which has already globalised, and which has already led to T & N chairman Mr Colin Hope, Sir David and others leading their companies into joint ventures giving them a presence in every developing marketplace, as well as in the established car-producing regions.

John Griffiths

**The UK Automotive Components Industry. Special Report No. 2158. The Economist Intelligence Unit, 40 Duke St. London W1A 1DW. £325.*

Industries in eastern Europe come in from the cold

A rapid transformation

THE AUTOMOTIVE and components industries of eastern Europe, long neglected by central planners, have been transformed with extraordinary rapidity in the past two years by heavy western investment.

The biggest change has occurred in Hungary, which did not even have a car industry in 1990. Comecon, the old Soviet-dominated trading bloc, had decided 30 years ago that Hungary should specialise in producing buses for the bloc, as well as related components such as heavy duty axles. For Hungarian consumers, this left them with a choice between Fiat-Ladas from the Soviet Union and Poland or Trabants from the former East Germany.

But in March, the first Opel Astra rolled off the new assembly lines at Szentgotthard, near the Austrian border; and in August the first Suzuki Swift will roll off equally new production lines at Esztergom less than 50km away.

Initially, both the 15,000-a-year Astra plant and the 60,000-a-year Swift factory will be "screwdriver" plants, assembling parts and components imported customs-free from GM's plants in Europe and Suzuki plants in Japan. But this is expected to change fast, as both plants push to maximise local content and take advantage of labour costs estimated to be only 10 per cent of comparable German rates.

From the outset, however, the most important aspect of the $300m investment by GM and the Hungarian government at Szentgotthard was not the assembly but the much larger engine plant due to come on stream this month. The new plant will have the capacity to produce up to 200,000 highly fuel-efficient 1300cc and 1600cc engines for export to other GM plants throughout Europe.

Suzuki, which intends to export most of its cars from the new Hungarian plant, has started by importing engines and other parts worth almost 60 per cent of total value from Japan. But the plant's eventual profitability depends largely on its ability to raise the local content to 60 per cent by 1995.

Together, the two plants should provide a powerful incentive for component-makers to build new factories in Hungary. Some have already done so. Ford has just started production of fuel pumps, ignition coils and other components at a new $80m plant at Szekesfehervar, near Budapest. United Technologies, also of the US, has established a $10m plant at Godollo to build electrical systems for cars, and plans to expand the plant's output from new sites in Hungary and its neighbours rises.

It is a similar story in Czechoslovakia, where Volkswagen paid around $600m for an eventual 70 per cent stake in Skoda and also built an Audi assembly line in Bratislava, the Slovak capital. Over the next five years, VW plans investment worth another $6bn at Skoda, to raise production and introduce new models.

Investment on this scale is proving a powerful incentive to VW's traditional suppliers to take similar advantage of Czechoslovakia's cheap, skilled labour. Robert Bosch of Germany has taken a 76 per cent stake in the newly privatised Motor Jikov components company of Ceske Budejovice. It plans to build new production facilities and quintuple the 200-strong workforce by 1995. The plant produces carburettors and other components for small agricultural machines, but the product range will be expanded to satisfy the more sophisticated demand from VW-Skoda.

T and N, the UK motor components and engineering group, has also made two strategic investments in the region, which it intends to make the springboard of a fast-growing presence. In January T and N bought Gleitlagerwerk Osterwieck, a small east German ball-bearing company which used to supply bearings and other components to the former Trabant plant at Mosel, near Zwickau, now transformed by Volkswagen into a Golf assembly plant. In May, it completed the acquisition of a majority stake in Osinek, the sole Czechoslovak producer of friction and braking materials. The UK company plans substantial investment to raise output of brake linings and other automotive and industrial components.

Rising output from the new VW controlled plants in Czechoslovakia and former East Germany has also induced Sklo Union, the Czech flat-glass company now 70 per cent controlled by Glaverbel of Belgium, to raise output of automobile glass from its plant at Teplice near the German border. The Czech-Belgian joint venture expects to double its current deliveries to VW of 200,000 automobile glass sets a year by 1994. Its low-cost, high-quality production has also enabled Sklo Union to elbow aside St Gobain of France and export auto glass sets to Fiat plants in Italy.

Fiat is also investing heavily in eastern Europe. It has retarded plans to build a new car plant at Yelabuga, 850km east of Moscow, but recently agreed to pay a total of $2bn for control of FSO, Poland's small car producer. More than $1.2bn of the total will be spent raising production and introducing a new model to flank the existing Cinquecento model. Fiat's move is expected to be followed by an influx of Italian and other component companies.

Farther east, Cummins Motor, the world's largest independent engine maker has agreed a joint venture with Kamaz, the largest Soviet truck maker, to build Cummins truck engines at Kamaz, in Nabarezhnye Chelny, 900km east of Moscow. When complete, the new facility will have the capacity to turn out 50,000 engines a year. Some will be incorporated in Kamaz trucks built for export to western markets, and others will be exported from the low-cost Russian plant to Cummins' customers around the world.

After decades in the cold, eastern Europe is rapidly becoming a significant player in the auto components business.

Anthony Robinson

Going gets even tougher

Continued from page 1

US administration is using customs regulations on local content to try to force Japanese vehicle makers to use more locally-produced components.

Honda's Canadian car production is the test case – while a barrage of protective trade legislation has been proposed in Congress aimed at limiting Japanese market share and vehicle production in the US and at cutting the trade deficit.

To date, Japanese component makers have followed the Japanese vehicle makers more into North America than into Europe, but the established North American and European component suppliers must capture new business from the incoming Japanese transplant operations, if they are to succeed and supplement sometimes shrinking business with their traditional customers.

According to ELM, the US automotive analysts, Japanese automakers produced 1.62m cars, 295,000 light trucks, 321,000 transmissions and 735,000 engines in the US and Canada in 1991. "Each of these figures is expected to increase substantially over the next five years. In 1991, 18 per cent of the cars built in North America were built in assembly plants owned or controlled by Japanese automakers."

ELM claims that the number of Japanese parts suppliers with plants in North America supplying the Japanese automakers' North American assembly plants rose from 330 in 1990 to 276 in 1992. At the same time, the number of US companies supplying these same Japanese automakers in North America rose from 309 in 1990 to 372 by early 1992.

Auto-components companies face, too, a difficult challenge from changing technologies and must move quickly to adapt to the shift to electronics, the move to lighter weight materials, and the impact of government regulations requiring alternative fuel vehicles, and setting much tougher exhaust emissions and safety standards. Almost all principal components are being transformed through the introduction of electronics.

It is a daunting challenge for the component suppliers. According to Mr Harold Poling, chairman and chief executive of Ford, one of the most pressing objectives for the vehicle makers is to bring new products to the market faster. "We intend to reduce product development time by 25 per cent, and our suppliers will play a key role in meeting this goal.

"We will need supplier partners who can commit early in the product development cycle, work with us to better integrate design and manufacturing requirements, and be full-time, full-service participants in the process of bringing a car or truck to market."

WORLD AUTOMOTIVE COMPONENTS 3

Partnership the watchword

Few companies in Italy are escaping the shake-out, observes David Lane

THE 15th Automotor international motor components, spares and accessories fair opened at Turin's Lingotto site at the beginning of June with a significant increase in the number of exhibitors.

More than 600 companies were looking to boost their business by being in Turin, compared to 544 last year. Among the exhibitors were 90 from abroad, who considered the commercial benefits of the week-long fair would outweigh the costs.

The growing popularity of the fair is evidence of the increasing pressures on the industry. The problems were underlined by Aldo Malandra, of Associazione Nazionale fra *Industrie Automobilistiche* (ANFIA, the Italian automobile industries association): "These are difficult times for the whole automobile industry. The components industry is having to tackle the simultaneous challenges of a contracting market for new cars and weak demand in the spares after-market."

Original equipment makers in Italy have been unable to avoid being affected by the drop of 10 percentage points in the share held by Turin automobile group Fiat in its home market, from around 55 per cent to about 45 per cent over the past two years. "Companies dependent on Fiat have *been badly hit*," says *Roberto* Olivero, sales manager of Automotive Products Lockheed brake plant at Cairo Montenotte, south of the Piedmont capital.

Fiat suppliers had to reduce their production levels in 1991, and the situation will probably worsen this year. "Much was expected from the Tipo, but its sales have disappointed. Fiat's prospects will not get brighter until its ageing model line gets new models."

Moreover, Fiat is reducing the number of companies from which it purchases components. "*Partnership is becoming* the watchword in the changing relationship between automobile maker and supplier," says Mr Olivero.

Partnership is also the word that ANFIA's Mr Malandra uses to describe the increasingly tighter relationship in which front-rank Italian components firms *are being called* on to boost in-house capability for research. "Automobile makers are delegating as they deverticalise, and this requires that 'components' makers should be financially strong. The weakest are being sorted out."

As companies address a changing and challenging situation, they have had to increase their use of the state Cassa Integrazione Guadagni (CIG) fund for laying off surplus labour. Mr Malandra says that precise figures are not available, but ANFIA estimates that about 10 per cent of the component industry's total workforce of 140,000 is being paid by CIG. Lay-offs at Automotive Products' plant have paralleled those at Fiat.

Few companies are unaffected by the present industry-wide shake-out, and Italy's biggest components group, Fiat subsidiary Magneti Marelli, is undergoing a big re-organisation. Last year this led to a reduction of 4,000 workers from a workforce that *totalled* about 30,000 at year-end 1990.

Magneti Marelli's 1991 accounts included expenditure of L255bn on restructuring that *has involved the closure of* eight plants and rationalisation of production aimed at cost containment. The group says there is a 9 per cent improvement in productivity.

It notes that turnover rose 4 per cent in the first four months of this year, and that operating margins have improved, confirming the validity of the re-organisation. (Consolidated accounts recorded a *loss* of *L144bn* on L3,287bn turnover in 1991, but the group expects a return to profit in the medium term.)

In focusing on strategic businesses, Magneti Marelli has disposed of those that do not fit into its newly-defined portfolio. Its cable activities have gone to France's Labinal; seals *to Britain's TI and horns to* Fiamm, while batteries production has passed elsewhere in the Fiat Group.

With more stringent environmental laws *causing a significant* drop in carburettor production, Magneti Marelli's efforts are increasing in the engine control sector which includes injectors and fuel pumps. The group's other key sectors are cooling, heating and air-conditioning systems, instrumentation, lighting and electro-mechanical equipment.

The main outlet for Magneti Marelli's production is its domestic original equipment market, with Fiat Group's Italian operations taking 29 per cent of the total. *Automobile* makers in France and Germany take 19 and 14 per cent respectively, and Magneti Marelli points to its Q1 status as a Ford supplier, Class A with Peugeot and Renault and Supplier of the Year with General Motors. But Magneti Marelli's horizons extend to the emerging markets in Turkey and Poland.

Foreign markets are important to a large part of the Italian automotive components industry. Mr Malandra says that between 20 and 25 per cent of the industry's total sales of L18,000bn last year were from exports.

Italian makers of brake *components* rely *heavily on* sales abroad, with these accounting for more than half of aggregate turnover. "Brake pads and linings are subject to wear, thus creating demand for spares. The relative lack of product and production sophistication makes market entry easy for small business," says Mr Olivero at Automotive Products.

Fragmentation between many small- and medium-sized companies is a characteristic of production of brake parts in Italy. But, in spite of the trend towards concentration, it continues to be a feature of the Italian automotive components industry as a whole.

"Few of the 1,000 companies in the industry are large. But fragmentation is not necessarily a weakness. The industry has the strength of flexibility. *And in terms of technology* and innovation it does not lag behind other countries," says Mr Malandra.

Reviewing the bleak situation, in which volumes of original equipment have been eroded by the fall in new car registrations and sales of spares adversely affected by improved component reliability, Mr Malandra sees a shaft of light ahead.

"At present cars in Italy are subject to their first official safety check 10 years after registration. A new highway code should reach the statute book in January 1993 which will make the first check obligatory after four years, with subsequent checks *every two years*. This ought to stimulate the spares market," he says.

More efficient look

French component groups still have a long way to go to catch up, warns William Dawkins

FRANCE'S CAR component industry, Europe's second largest, has played an essential part in supporting the campaign by Renault and Peugeot to reduce their productivity gap with Japan.

Michelin, the tyre group; Valeo, the diversified components maker; the glass maker, Saint Gobain; ECIA, the Peugeot components subsidiary; and Hutchinson, the maker of rubber parts and sealants, have made significant improvements in costs and quality in recent years.

This has been partly in response to pressure from their car-making *customers, seeking* to improve efficiency at all stages of the process. But it is also a result of the rigours imposed by the weakness of car demand, down by 0.6 per cent in France in the first four months of this year, according *to the CCFA car makers' committee*.

As a mark of just how far productivity has advanced, the French component industry's output grew by 25 per cent in real terms in the four years to 1990, while the number of *employees fell by more than 2.5* per cent, according to a recent survey* by SAC Enterprises, the UK consultancy.

Yet, in line with their European counterparts, French component groups still have a long way to go to catch up. According to France's Fiev, vehicle component makers' federation, European companies' annual sales per employee are still a mere *FFr630,000 ($119,000), less than* half their Japanese competitors' equivalent of FFr1.33m.

Even so, France's largest components groups are significantly leaner and more efficient than they were only a few years ago. Valeo announced a 30 per cent rise in operating profits last year, reflecting productivity gains of 5 per cent. It was recently awarded top marks by Moody's, the rating agency, which classed Valeo's treasury bills as prime one, and described the French group's plants as "among the most efficient in Europe's auto components industry". As a supplier to *Nissan, Honda and Toyota*, the company has shown that it can match rigorous Japanese demands.

Michelin returned to operating profit *last* year, after having incurred heavy losses in the downturn, worsened by the costs of having to digest its 1989 acquisition of Uniroyal Goodrich. Since then it has trimmed stocks, made heavy job losses and introduced production efficiencies.

French component makers have been helped by the fact that French car makers have taken to buying in more of their components from suppliers, rather than making them in-house. So it is that bought-in components have risen to just over 60 per cent of total operating costs at Peugeot and 67 per cent at Renault, a steep rise over recent years, and will go *on rising in both cases*.

This is happening partly because Peugeot and Renault have both moved away from their old strategy of integration, and instead see themselves primarily as designers and assemblers of cars.

The rise in car makers' outsourcing also reflects their increasing demand for high-technology components, such as anti-lock brakes and catalysers, which they have no interest in making themselves. This means they need suppliers that are prepared to design and pro*duce a significant part of a* vehicle themselves, in return for a long-term contract. An example is Epeda Bertrand Faure, asked to handle to whole of the seating of the Renault 19.

All this signals a rethink of *the traditional adversarial relationships* between car makers and suppliers, in which pricing formed the most important part of purchasing decisions. The battleground has now shifted, so that French car makers have instead become more demanding on quality and delivery times, to enable them to practise just-in-time stock control, an essential part of their productivity gains.

Peugeot and Renault have, for example, for the past five years been running joint audits to keep component suppliers' quality up to the mark, grading them according to ability to do their own quality control. They are thinking of extending this system to cover suppliers' productivity, too.

The winners in the shift towards quality and higher technology have been the largest players, while smaller suppliers are increasingly being forced into a secondary position, selling parts to the large component groups instead of *directly to the car makers*. "Not all of the French suppliers have the R&D resources to meet these requirements. Some . . . will become second-tier *suppliers*," says SAC.

Many already have. Renault plans to reduce its number of suppliers from 1,100 last year to around 600 or 700, while Peugeot has already cut back from 1,700 suppliers in 1984 to 740 last year, according to the study. This is still many more suppliers than *Japanese producers* tolerate – Nissan has 160, for example – which suggests that the shake-out has much further to go.

If the big players are doing well, the middle and lower ranks of the French components industry shows worrying lack of dynamism, says SAC.

For one thing, the industry tends to be too centred on the French market, with the obvious exceptions of the top players such as Valeo, Michelin and Saint Gobain. This is a disadvantage when car makers are becoming more global.

At the same time, French car component companies are fac*ing increasing competition in* their own market. In recent years, several German companies have set up in Alsace, to take advantage of the relatively cheap labour costs, while ACG Europe, the GM subsidiary, has opened a chas*sis centre near Paris*.

In 1990, NGK, the Japanese spark-plug maker, announced plans to open a plant in the Loire valley; and Koyo Seiko, a Toyota subsidiary, took a stake in Renault's steering systems division. Given France's continuing sensitivities over competition from Japan, observers do not expect a French repeat of the invasion of the US car components industry achieved *by Japanese suppliers*.

For the moment, the French automotive component industry appears to be holding its own internationally, as is shown by its continuing healthy trade surplus. However, the SAC study argues that the international exposure among medium-sized and small suppliers could be a serious handicap.

Crucially, the French indus*try is weak on electronic components*, which form a growing proportion of the market as cars become more sophisticated. New products here are *being increasingly developed* outside France – and the growing number of foreign competitors in France could suggest that French suppliers are losing their technological edge, it warns.

* *The Outlook for the French Automotive Supplier Industry in the 1990s, price £550, SAC Enterprises, 24 Northfield Avenue, London W13 9RL.*

Exciting times

Continued from page 2

mann. Last year, it not only bought control of Boge, a maker of struts and shock absorbers, in a field where it already has one subsidiary, Fichtel und Sachs, it also went on to acquire VDO Adolf *Schindling, the instrumentation* and controls specialist.

More companies are likely to be snapped up in an industry which saw 50 take-overs *between the start of 1988 and* mid-1991 when the study – called "The Outlook for the German Automotive Supplier Industry" – was produced. In *Germany, unlike Britain and* France, medium-sized specialist companies are predominant in the parts industry. But they are having to invest more *heavily to meet the demands of* the motor industry at a time when financial returns are falling and costs and foreign competition rising.

Thus, adds the SAC study: "Many medium-sized companies in the German components industry appear to be under considerable threat. They have the largest changes *to make and face the heaviest* demands".

Their customers, the vehicle companies, are increasingly going abroad for their vehicle *parts in an attempt to curb* costs. So, to compete with foreign parts suppliers, German companies have also started moving outside their home base.

This trend is not being followed just to keep costs down, however. Big components companies like Robert Bosch, whose products include anti-skid braking (ABS) and fuel injection systems, have found it necessary to build plants outside Germany to be closer to individual markets. Thus *Bosch has built a £100m plant* for alternators in Wales to raise its share of the developing UK market, where Japanese investment has led to a *new lease of life*.

Among the vehicle makers, Mercedes-Benz is also looking towards the UK where it sees the potential to increase purchases of components from local companies offering competitive prices. In addition, a number of German suppliers apart from Bosch, such as Siemens and VDO, have set up units in the UK to sell to the revived car industry there; others are following.

The car makers themselves are also finding it increasingly necessary to move abroad if they are to keep up with market developments. Hence the decision of BMW, a rival to Mercedes in the luxury segment, to invest in a new site in the US.

So while these may be exciting and fast-moving times for components and vehicle makers, they are also some of the most testing the German automotive industry has been through in the post-war period.

Andrew Fisher

WORLD AUTOMOTIVE COMPONENTS 4

Challenges mount as US vehicle makers face stiff competition

Buying policies overhauled

THE challenges facing the US automobile components industry were graphically underlined recently when General Motors summoned some 600 of its suppliers to a meeting in Michigan and spelt out a radical new approach to its purchasing policies.

GM's new approach should mean significant sales opportunities for the strongest, most efficient and most global components companies, but it is also likely to drive smaller, weaker operations out of business.

It is therefore likely to accelerate the consolidation that has already been taking place in the US parts industry over the past decade as companies have come to grips with global competition, a growing Japanese presence in the US market, profound changes in the way vehicles are made, and a severe North American recession.

The recession has meant a sharp drop in US car and light truck sales – from 13.89m units in 1990 to 12.33m in 1991 – and this year is expected to produce only modest recovery.

The Big Three automobile assemblers plunged heavily into the red in 1991. Their components suppliers, thanks to rationalisation measures which cut 100,000 jobs from the industry in the 1980s, suffered less severely, although many saw a sharp drop in profits, due to lack of demand and pricing pressures from Detroit.

For example, GM saved $2bn in 1991 by demanding that suppliers cut prices over three years – by 3 per cent in the first 12 months, then by 2 per cent in the next 12 and another 2 per cent in the final year.

Just as the industry starts to emerge from recession, GM is now asking for more price concessions, under the new purchasing policy spelled out at the Michigan meeting by Mr Ignacio Lopez.

Mr Lopez, who helped turn around GM Europe in the 1980s through his innovative purchasing policies, has been given the task of doing the same in North America, following April's coup by GM directors dissatisfied with the pace of change inside the business.

According to the unhappy suppliers, Mr Lopez has asked them to rebid on contracts they had already won for the 1993 model year and there are suggestions GM will no longer provide up-front money for the tooling suppliers need to make their components.

More positively for the supply industry, Mr Lopez also said that GM's own huge, cosseted parts operations would henceforth have to compete for contracts with outside, non-union shops. And he offered GM's help in cutting suppliers' costs through a sharing of expertise and he held out the carrot, for successful suppliers, of selling products to GM worldwide under long-term contracts.

For the most efficient suppliers, the overall effect should be positive. "The GM move has been heartening to the independent side of the business as a whole," says Mr Greg Macosko, an analyst in New York with Quest Advisory. "It sees a real opportunity out there."

The trend to global sourcing, and the use of fewer suppliers, linked closely with the vehicle assembler in a long-term relationship, is hardly unique to GM. It has long been common among Japanese manufacturers as a way of cutting costs and increasing quality and has been adopted increasingly by assemblers in North America and Europe.

The establishment by Japanese assemblers of plants in North America during the 1980s, and their heavy reliance on US subsidiaries of Japanese parts manufacturers, was a big setback to US-owned suppliers as the Japanese took an ever increasing share of the US vehicle market.

However, several factors may now slightly ameliorate, though not remove, this threat. First, statistics for the past few months suggest that Japanese assemblers are finding it more difficult to gain market share. Second, there are increasing political pressures for them to buy parts from American-owned companies. Third, they seem a little more willing to "buy American" from companies which have convinced them of the quality of their products.

However, the opportunities for US suppliers making significant inroads in this area seem limited. At the same time, the 400 or so Japanese parts manufacturers which have set up in the US, and are often losing money in supplying their compatriots, may try to bid aggressively for business from Detroit.

An increasing number of the Japanese parts suppliers have set up joint venture operations in North America with US companies, with the aim of serving the Japanese and American assemblers.

Mr Macosko believes that over the long term many of the American companies participating in these operations may simply lose their independent identity and be absorbed into the joint ventures.

Most the the strongest US components suppliers have long had a substantial presence in the European market, but most of them are now seeking to reinforce this, through acquisitions and green-field investments, in fast-growing sectors.

For example, Cleveland-based TRW is investing some $500m on its power rack and pinion steering business to meet growing demand, much of it in western Europe.

And Morton International, the Chicago-based group, recently announced plans to invest in a joint venture with Robert Bosch, the German engineering group, in a European plant to make emergency airbags for cars.

Morton has the biggest share of the US market for airbags, which is expanding rapidly thanks to consumer demand and government regulation. Morton sees big potential in the European market, where airbags are rare at present, as does TRW, its main US rival in the business.

Martin Dickson

US Automotive Components Industry 1989

Companies with annual sales of more than $1bn

Rank	Corporation	Sales ($bn)
1	GM Automotive Components Group	29.0
2	Ford Automotive Components Operations	13.5*
3	Goodyear Tire & Rubber	10.9
4	Dana	4.9
5	Allied-Signal Automotive	3.8
6	GM Hughes	3.5
	Cummins Engine Company	3.5
8	TRW Automotive	3.4
	Acustar	3.4
10	ITT Automotive	2.9
11	Rockwell Automotive	2.4
12	Eaton	2.1
13	United Technologies Automotive	1.9
	Magna International	1.9
15	Tenneco Automotive	1.8
16	Masco Industries	1.7
17	Echlin	1.5
18	Arvin	1.2
	Kelsey-Hayes	1.2
20	Lear Seating	1.1
	Federal Mogul	1.1
22	Borg-Warner Automotive	1.0
	Gates Rubber Company	1.0

* Estimate. Source: The Economist Intelligence Unit

US automotive components sector 1987-89

	1987	1988	1989
Value of product shipments ($bn)*	87.8	91.4	96.0
Employment (000)	631	639	649
Shipments per worker ($000)	139	143	148
Value of imports ($bn)	26.8	31.0	33.2
Import penetration (%)	26.7	29.5	28.8
Value of exports ($bn)	14.4	17.8	17.8
Exports as % of shipments	16.4	19.0	18.5
Trade deficit ($bn)	12.4	13.5	15.5

* Excludes services provided by establishments in the automotive parts and accessories industry and tyres and batteries. Source: The Economist Intelligence Unit

Balance of US automotive parts trade, 1985-89 ($m)

	1985	1986	1987	1988	1989
Total balance	(2,710)	(10,065)	(12,419)	(13,548)	(15,453)
Brazil	(490)	(760)	(935)	(1,041)	(674)
Canada	1,576	(55)	836	1,192	(167)
EC	(882)	(2,386)	(3,176)	(2,989)	(2,693)
France	(307)	(567)	(654)	(583)	(618)
West Germany	(513)	(1,269)	(1,710)	(1,760)	(1,463)
Italy	(74)	(214)	(358)	(315)	(327)
Japan	(3,080)	(5,996)	(7,327)	(8,842)	(10,536)
South Korea	(315)	(292)	(340)	(439)	(451)
Mexico	(371)	(1,116)	(1,631)	(1,868)	(1,033)
Spain	(52)	(143)	(222)	(271)	(312)
Taiwan	(277)	(424)	(522)	(521)	(573)
UK	(11)	(253)	(295)	(236)	(166)

Source: The Economist Intelligence Unit

Japanese debate

Pressure tells as anger mounts

THERE ARE few more contentious trade issues between the US and Japan than automobiles and automobile parts – a fact underlined by the industry's strong presence on President Bush's controversial visit to Tokyo at the start of this year, when he put pressure on Japan to buy more US vehicles and parts.

The concern is hardly surprising, since the auto parts industry is the largest manufacturing sector in the US, with sales of around $100bn, and the automobile sector accounts for three quarters of the US trade deficit with Japan.

The Bush visit was only one manifestation of a growing anger in the US over this imbalance, and there are signs that Japanese automobile manufacturers are beginning to respond to the pressures, showing a greater willingness to consider buying parts from US suppliers.

A key question now is whether these gestures will lead to a significant increase in actual purchases.

The pressures on the Japanese are taking several forms. In Congress, for example, a trade bill was introduced in May, supported by Ford Motor and Chrysler, which would have limited the sale of Japanese cars in the US – both imported vehicles and those made at Japanese "transplant" factories in the US – to 1992 levels unless sales of American vehicles in Japan increased. However, early in June these Draconian provisions were dropped from the legislation.

Meanwhile, the Department of Commerce has found Japanese manufacturers of minivans guilty of underpricing their vehicles in the US market; and the US Customs Service has ruled that vehicles made by Honda in Canada do not have a 50 per cent North American content, and that the company owes $16.5m in import duties.

These political pressures help explain why during President Bush's January visit Japanese manufacturers agreed to increase purchases of US automobile parts and help Detroit's Big Three sell more cars in their country.

A second meeting to discuss the issues was held by the Japanese companies and their American counterparts in Chicago in May.

During the January meeting the Japanese agreed to increase purchases of US parts to $19bn in 1994, from $10bn in 1991 and from a mere $2.5bn five years ago. However, there has been confusion since then over whether these totals were commitments, or merely targets.

Nevertheless, in a report to President Bush last spring Mr Jack Reilly, chairman of Tenneco Automotive and head of an industry council, noted that a straw poll of manufacturers showed increased Japanese interest in buying US parts.

However, the main beneficiaries of such a move may well turn out to be the US subsidiaries of Japanese parts manufacturers, whose products count as "US content", rather than their American-owned rivals.

Around 400 Japanese parts manufacturers have followed the Japanese assemblers to the US, and American parts makers suspect them of bringing with them the *keiretsu* system, involving extended families of companies linked by cross shareholdings which prevent outsiders from getting business.

However, the Japanese industry says that the main stumbling block for US parts suppliers has been an inability to compete on grounds of cost and quality.

Mr Reilly replies that the US industry is more efficient than that of Japan and adds: "It is incredibly difficult to believe that the world's largest parts supply base is competitive on cost and quality only on 16 per cent of the transplant business."

Whatever the truth, the $19bn figure is largely predicated on increased production from Japan's US transplant factories, and that may well eat further into the domestic market share of the Big Three, which use parts made by US-owned companies much more extensively than their Japanese transplant rivals. In other words, the US parts manufacturers might gain Japanese sales, but lose more than that in sales to their traditional American customers.

Nevertheless, the Japanese transplants are buying relatively more from suppliers in the US (be they Japanese- or American-owned). Government figures show that in 1991 the transplants bought $1.54 of US parts for every $1 of parts they imported, up from $1.04 of US parts in 1989.

Furthermore, the transplants have been putting considerable sums into US design and development centres which will eventually generate demands for purely American parts to go into vehicles aimed at the local market.

However, one US measure – the Corporate Average Fuel Economy (CAFE) law – actually discourages Japanese transplants from buying US parts. The law, passed in 1975, mandates fuel efficiency levels for vehicles. When it was going through Congress the United Auto Workers Union, fearing a flood of imported fuel-efficient small cars which might cost jobs, pressured lawmakers into forbidding companies to average the fuel economies of their domestic (75 per cent local content) and imported cars.

The result is that several Japanese manufacturers are deliberately keeping their US domestic content below 75 per cent so these fuel efficient vehicles can be classified as imported for CAFE purposes, and thus offset the worse fuel efficiency of their imported luxury models.

Industry pressure groups are calling for the CAFE rules to be amended to get rid of this anomaly as part of the negotiations over a North American Free Trade Area.

Precisely what constitutes an "American-made" vehicle is also open to endless debate. For example, the Transportation Department, which oversees the CAFE rules, says that marketing costs can be included in domestic content. However, the customs service, which recently ruled against Honda, will not allow this in its definition, which is based largely on the origin of the car's parts.

All this throws up some bizarre anomalies. For example, under the CAFE rules Ford's Mexican-assembled Mercury Tracer is classified as domestic, while the Cadillac Allante, built in Michigan, but with an Italian body, is an import.

Martin Dickson

A look ahead into the future of motoring

Tomorrow's car takes shape

THE proportion of a car's value represented by bought-in components is steadily increasing although the basic pattern of car manufacture has changed but little in recent years.

The vehicle manufacturer invariably produces the body shell, almost always the engine (with its own proportion of bought-in parts) and more often than not the transmission. All other components are purchased for direct installation, and this is the area in which car value has been increasing fastest.

The process will inevitably continue at a rate which will comfortably outstrip the growth of car production measured in raw units. Consumer demand for ever higher levels of comfort, performance and equipment have gone hand-in-hand with legislation for more safety and cleaner exhausts to ensure this.

A particular area of technology that has become the component suppliers' preserve is electronically-controlled systems. While nobody should underestimate the electronic expertise of the vehicle manufacturers themselves, they are simply not in the business of producing electronic components in large numbers – unless they do so via dedicated subsidiaries, as do General Motors and Toyota, for example.

While the popular image of an electronic system is that of a "black box" computer which exercises control over the operation of some aspect of the car, the reality is that the black box and its contents are the (relatively) easy part. To exert control, the computer must first assess circumstances by means of various types of sensor. It must then act to control the situation by means of output devices or transducers.

It is in the area of sensors and transducers that some of the most intense development of vehicle components is taking place, placing component-sector companies with related expertise, such as Germany's Bosch and Japan's NGK, in a very strong position.

The first serious application of electronic control systems to the car was in the management of engine operation. It is now commonplace to have a single computer controlling ignition and fuel injection, the latter particularly with the aim of reducing exhaust emissions. New regulations concerning emission control systems have placed extra demands on systems and sensors: for example, US and Japanese legislation will shortly demand the in-car monitoring of catalytic converter efficiency, calling for oxygen content "lambda" sensors to be installed upstream and downstream of the converter.

The adaptability and availability of electronic engine control systems may yet bring about a revolution in basic engine design: none of the development teams now working hard on two-stroke engine projects would pretend they could make their units work properly without the speed and precision of electronic control.

Electronics has since migrated to the control of automatic transmission. No designer of such transmissions would today contemplate any other approach. Without electronics, the control mechanism of the latest five-speed transmissions would be too heavy and complex to be seriously contemplated.

Nor would there be any question of systems which adapted their shift patterns to the driver's own technique, as some of the new units do. With automatic transmissions in Japan now making the breakthrough to American levels of sales penetration, and with confident predictions that Europe will follow suit, this will be an important growth area.

Another transmission-related area in which rapid growth is expected is that of traction control systems, which operate to detect incipient wheelspin and to prevent it either by cutting back power or by partial brake operation.

It is also expected that limited-slip differential units, with or without electronic control, will become much more widely fitted.

The chassis is the part of the car most recently to have felt the impact of electronic engineering. We have become more and more familiar with electronic anti-lock braking but today's developments go further. More and more up-market cars are now offered with electronic control of suspension operation, adapting its stiffness to the road surface and to the car's behaviour: soft when cruising on a smooth road, firm when driven briskly on a rough or winding one.

Development in this area is rapid and the potential for expansion is huge. Among

Continued on page 5

New life is being pumped into world tyre industry

Poised for a smoother ride

SLOWLY and laboriously, new life is being pumped into the world tyre industry.

The industry has had a bone-shaking ride since 1989, when it first developed the puncture in its profitability caused mainly by the slide of large original equipment and replacement markets into recession.

According to estimates in a new report from the Economist Intelligence Unit, this global industry which turns over close to $55bn a year has made collective losses of more than $1bn in the two years up to early 1992.

It is an industry which has seen rationalisation on a scale matched by few other industrial sectors. In the mid-1980s, 80 per cent of the market was shared by 13 manufacturers. Now, 85 per cent of world sales are accounted for by just six manufacturers. Had things turned out differently late last year, the number would have been reduced to five. In what was generally seen as likely to be the last of the big tyre industry takeovers, Italy's Pirelli, the world's sixth largest tyres group with annual sales of around $3.5bn, sought to take over rival Continental of Germany, ranked fourth with sales of just over $5bn.

Had the bitterly contested bid succeeded, Pirelli would have created a group close in size to the "big three" of the tyres world: Michelin of France, now marginally the world market leader with sales of more than $12bn, Bridgestone of Japan and Goodyear of the US.

Instead, Continental dug in its heels, retained its independence and Pirelli incurred substantial losses directly related to the failed bid. They formed a significant portion of the $275m deficit reported for 1991 by Pirelli Tyre Holding, the Dutch-listed company which controls Pirelli's world tyre operations.

According to its board, however, Pirelli Tyre Holding will return to break-even some time this year, with a full return to profitability in 1993.

Indeed, the opening months of this year indicate that the industry is at a turning point.

It is still having a very hard time convincing car makers, themselves hit by slumping markets and under massive pressures to reduce costs, that the tyre industry needs price rises if research and development, and investment in automated tyre-making facilities, is to be maintained.

But, led mainly by Michelin, it has managed to force through price rises of 7-10 per cent in the replacement tyre sector, which accounts for about two-thirds of total unit sales volumes.

With the North American vehicle market, in particular, starting to show signs of recovery, the other leading players are already reporting a return to profitability.

According to Mr Philip Wylie, of Barclays de Zoete Wedd who is the author of the EIU report, the combined effect of the price increases and North American market recovery should more than offset expected declines in the European and Japanese car markets this year.

As a result, he expects average operating margins to improve by about 1 per cent this year. And with lower redundancy and other restructuring costs – after the loss of tens of thousands of jobs over the past two years – he expects the industry to generate $1bn profits this year. This is still well short of the industry's peak year of 1988/89, when collectively it chalked up some $1.5bn.

Certainly, "this year has started better than the last one", according to Dr Hubertus von Grunberg, chairman of Continental's executive board. He expects the company to be "well in the black" this year.

Without doubt, some of the tyre industry's wounds are self-inflicted. Motorists everywhere are undoubtedly grateful to the industry for so virtuously shooting itself in the foot and inventing the radial tyre, capable of covering more than twice the mileage of the now almost obsolete cross-ply.

But some analysts believe there is more to the vicious price wars of the past few years, both in North America and Europe, than straightforward competition. Two main theories are put forward:

■ That Michelin in Europe, and Goodyear in North America, led a downward spiral in prices in the – ultimately unsuccessful – hope of persuading aggressively expansionist Japanese tyre makers such as Bridgestone and Sumitomor from seeking to acquire or otherwise set up manufacturing operations. Instead, Bridgestone acquired Firestone – and its operations in both North America and Europe – while Sumitomo is now the producer of Dunlop tyres.

■ The other theory works on "beggar-thy-neighbour" principles – that if prices were kept low enough for long enough, there would be a further, perhaps final round, of consolidation. Subsequently, as markets began to recover, the industry's profitability would be helped by the reduced competition.

The jury is still out on the consolidation issue.

Between Pirelli and Continental there remains a wary, hostile stand-off. They are still in negotiations over the possible sale to Continental of some of Pirelli's non-tyre businesses – but face a potential court battle over dividend payments for shares already owned by Pirelli in Continental.

Pirelli owns 5 per cent of Continental and has options over a further 34 per cent. Under German law, however, individual shareholders are limited to a 5 per cent voting share, no matter how big their holding.

Whether, in future, Pirelli will seek to revive its bid, or itself become a takeover target, remains an open question.

There is still a problem of over-capacity. Spurred by eight unbroken years of growth in the world's main car markets during the 1980s, and in spite of lingering memories of the savage job and capacity cuts after the 1979 oil shock, the industry spent several billion dollars on new capacity in the late 1980s, much of it coming on stream as vehicle markets turned down.

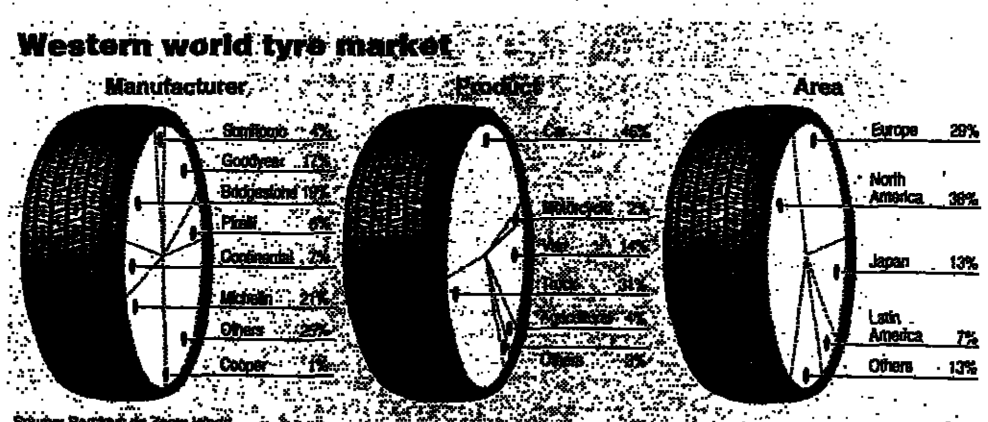
The reluctance of vehicle makers to concede any but the most grudging price increases will also put a brake on profits expansion during the 1990s.

But the entire industry can take comfort in long-term growth projections for the world car industry itself. By 1995, world sales are expected to be up to 25 per cent above 1991 levels.

The other plus point for the tyre industry is the prospect of substantial advances in automated manufacturing technology, and the chance to make sharp cuts in costs of what, by other industry yardsticks, remains a labour-intensive process because of the complexity and variety of the materials used, and the sequential processes of building up the tyre carcass.

John Griffiths

Western world tyre market



Source: Barclays de Zoete Wedd

Principal tyre industry acquisitions, 1986-1989 ($m)

Company	Acquisition	Year	Cost[1]	Sales[2]	Cost/sales[3]
Michelin	Uniroyal-Goodrich	1989	1,500	2,200	68%
Bridgestone	Firestone	1988	2,260	3,900	58%
Pirelli	Armstrong Rubber	1988	200	469	43%
Continental	General Tyre	1987	650	1,100	59%
Sumitomo	Dunlop	1986	240	450	53%

1 Cost is the purchase price; 2 Sales are of the acquired company in the year before purchase; Cost/sales indicates the value placed on each unit of acquired group's sales

Source: Barclays de Zoete Wedd

The Japanese 'spend' on components in Europe will be £3bn by 2000

Tempting carrot for invaders

MAZDA, Japan's fourth largest car maker, is preparing to announce before the end of this year precisely how and where it will begin car manufacturing in Europe.

It will be the seventh – and probably the last – Japanese vehicle maker to do so, joining Toyota, Nissan, Honda, Mitsubishi, Suzuki and Isuzu.

The combined production volumes involved represent important business to those European component makers who have already secured contracts or are competing for the newer projects.

Toyota is to start production of Carina saloons at its £700m Burnaston plant in the UK in December, with engines supplied from a £140m manufacturing facility in Deeside, north Wales. Burnaston is due to produce 200,000 cars a year by the mid-1990s. By then, EC content should be more than 80 per cent, compared with 60 per cent next year. Many industry observers, pointing to a precedent being set by Nissan, expect Toyota's output to be nearer 400,000 by the end of the decade.

Nissan, whose plant at Sunderland is preparing to build a new version of its Micra small car as well as the Primera range, this year unexpectedly announced an expansion of its 220,000 capacity to 300,000 from next year. It has already hinted that output will be 400,000 a year by the end of the decade. Significant developments are also afoot at Nissan Motor Iberica, Nissan's Spanish manufacturing centre, where a new "multi-passenger vehicle" (MPV), the Serena, is starting production alongside Nissan's Patrol four-wheel-drive vehicle. Yet another 4wd leisure vehicle, developed jointly with Ford, is also to be produced at the plant.

By late autumn, Honda's plant at Swindon, Wiltshire, will have gone on stream alongside its engine plant which already produces more than 100,000 engines a year. Swindon is to produce the Synchro medium saloon at an initial rate of 50,000 a year, to be joined by the successor to the smaller Concerto from 1995. Motor industry analyst Professor Garel Rhys, of Cardiff Business School, believes that Honda will be producing double its declared target of 100,000 cars a year by well before the end of the decade.

Mitsubishi Motors, Japan's third biggest producer, has created a joint venture with the Dutch government and Sweden's Volvo to produce 200,000 cars a year in the Netherlands by the late 1990s.

Suzuki's European manufacturing operations are in Spain, where it builds more than 20,000 SJ and Vitara 4wd leisure vehicles a year. However, it is also setting up a joint venture plant to build its Swift range of small cars in Hungary, with the long-term goal of 100,000 units a year.

Not least, IBC Vehicles, a UK-based joint venture between Isuzu and General Motors, is producing light commercial vehicles and the Frontera, a leisure 4wd, with a capacity of 100,000 vehicles a year.

Nissan's expansion in the UK will lead to component purchases from European suppliers jumping from £600m last year to £850m in 1993, according to Mr Ian Gibson, managing director of Nissan Motor Manufacturing (UK). Of this, some £655m will be spent with 122 UK component suppliers or UK subsidiaries of foreign-owned groups, including a handful of Japanese joint venture concerns.

However, that leaves nearly £200m worth of business being placed directly with Continental suppliers.

Suppliers from 11 countries have contracts with the Toyota manufacturing operation, which embraces nearly 170 component makers – whittled down from an original list of 1,850 applicants. More than half of them are based in the UK. Toyota's declared annual spending with European suppliers will be £700m in full production – but, like Nissan, is likely to move nearer the £1bn mark on a 400,000 production level.

Honda has appointed 136 European and two US suppliers for its £300m Swindon plant. The 89 UK-based suppliers include most of the industry's biggest names, including BBA's Automotive Products division supplying clutch assemblies and Lucas Automotive parts ranging from brake systems to wiring harnesses. Honda has indicated that spending with European suppliers will be £500m *annually* at the 100,000 cars-a-year level, but has also indicated an eventual increase to £600m-£800m a year.

When all Continent manufacturing activities are included, it is likely that the Japanese component "spend" in Europe by the end of the decade will be approaching £3bn. Surely a large enough carrot to entice Japanese component suppliers in waves?

Nevertheless, Mr Yukihisa Hirano, Toyota managing director, has explicitly rejected the notion that, over the long term, Japanese component companies will move in to take more of the business, declaring *that "Toyota has never asked* any Japanese companies to set up in Europe".

Indeed, according to a study of the European components industry by the Economist Intelligence Unit published earlier this year, Japan's car makers are specifically discouraging Japanese suppliers setting up shop "as a matter of policy".

In opting for European suppliers, Japan's car makers have no intention of settling for second best and have already proved relentless in their pursuit of cost-cutting.

Nevertheless, the symbiotic manner in which, so far at least, they are conducting it with their European suppliers is earning them growing, if sometimes grudging, respect and sympathy within the components industry.

Indeed, some component group chiefs have begun to imply that indigenous European car makers could do well to follow the Japanese approach more closely.

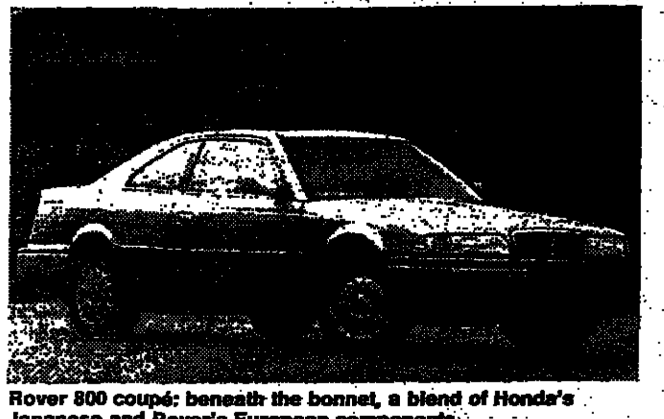
Senior industry figures like Valeo's chairman, Mr Noel Goutard, and Robert Bosch chief executive Mr Marcus Bierich, are among those protesting that too many European car makers are paying ready lip service to the concept of partnership between themselves and their suppliers, but in practice still placing an excessive financial squeeze on their suppliers.

This contrasts with the undisguised enthusiasm some groups are displaying towards *the development of their Japa*nese "transplant"-based business, and the knock-on effect it is having in terms of improved productivity and quality throughout their other business activities.

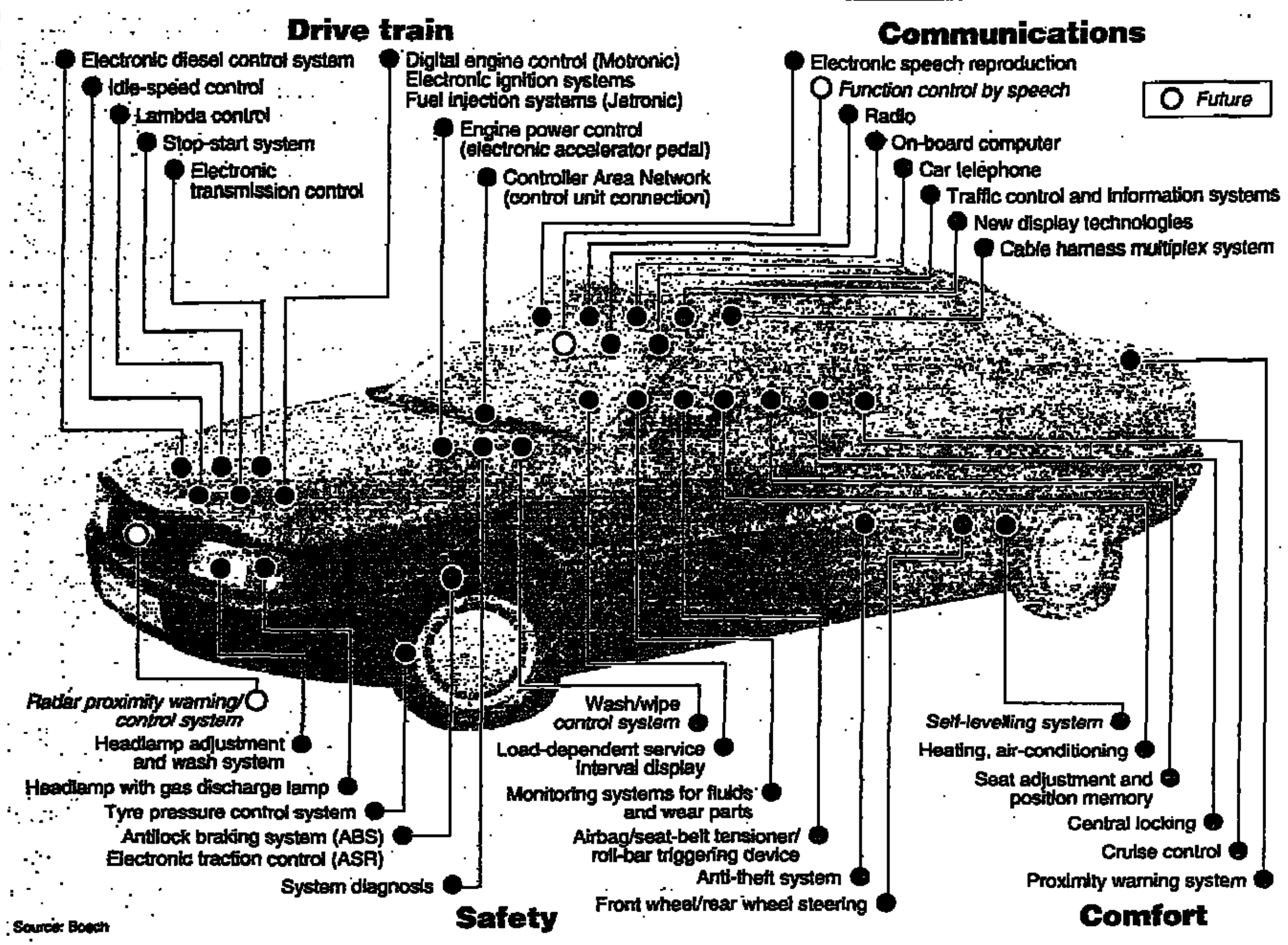
For example, the Unipart Group of Companies (UGC), the former components and accessories division of the UK's Rover Group, is moving rapidly towards the wholesale adoption of Japanese working practices and attitudes across all divisions of the 4,000-employee company.

UGC increased its profits last year in the teeth of one of the most severe UK recessions in history, and chief executive Mr *John Neill depicts his Japanese* customer as tough but fair on pricing.

John Griffiths



Rover 800 coupé: beneath the bonnet, a blend of Honda's Japanese and Rover's European components



Car of tomorrow takes shape

Continued from page 4

other things, engineers have long since moved on from considerations of mere ride comfort to study the subtle effects on car stability and handling of varying suspension stiffness between the front and rear of the vehicle. Further into the future, chassis specialists are examining the possible advantages of electronic "steer by wire" replacing mechanical linkages.

The components industry has already greatly benefited from the much greater amount of comfort and convenience equipment now fitted especially to up-market cars. There has been a trend towards the power operation of almost anything that moves. Electric windows and centralised locking have been joined by power-operated seats, mirrors and sunroof.

*Car manufacturers are begin*ning to count the number of electric motors installed in luxury-level models in dozens. In spite of warnings from some quarters that such developments are driving up the weight, the complexity and the cost of cars to undesirable levels, the trend seems inexorable. Serious consideration has already been given to multiplexing and "databus" systems to reduce the now huge amount of wiring in modern luxury cars.

Beyond the area of mere comfort and convenience, there looms the huge potential market for equipment to link cars with each other and with the environment – the kind of equipment beginning to emerge from the pan-European Prometheus research programme, for example. It is now possible to conceive of equipment which would enable a car to be precisely aware of its position (and duly to inform its driver) and thus to be able to calculate the shortest and *quickest route to its pre- pro*grammed destination, taking account of any temporary delays and ensuring safety via automatic vehicle separation and optimised road-space sharing.

New development: GM's two-stroke engine

Any such system would inevitably be a high-value item, *and would certainly be sup*plied by the component manufacturing sector. Virtually all the necessary technology has already been demonstrated: the remaining problems, not to be underestimated, involve its integration into complete systems and more particularly, *the standardisation of commu*nications protocols and other operational aspects.

Jeff Daniels

Profile: NIPPONDENSO

Ready to supply transplants

WHILE Japanese automotive components makers are moving with far greater caution to follow the country's vehicle makers into Europe than they did into North America, some of the Japanese industry's leading players are already establishing a substantial presence.

This month Nippondenso, Japan's biggest automotive components maker, begins production of air conditioners and heaters at its £65m UK plant at Telford, Shropshire.

Production of ignition coils began at its Spanish plant in Barcelona last year, while in September volume output will begin in the UK on a new 250,000-a-year radiator assembly line. The facility has been built with an investment of around £16m at ND Marston, the former IMI Radiators business, acquired by the Japanese group for £25m in 1989.

Nippondenso has established an important joint venture relationship in Europe with Magneti Marelli, Fiat's 66.5 per cent-owned automotive components subsidiary. The Italian company has taken a 25 per cent stake in NDM Manufacturing, the Telford air conditioner and heater plant, and in ND Marston. In return, Nippondenso has acquired a 25 per cent holding in the Magneti Marelli Italian-based subsidiary Borletti Climatizzazione.

Nippondenso's latest move in Europe was to reach agreement last month with the Champion spark plug division of Cooper Industries of the US to expand the two companies' existing North American production link to Europe.

Champion Spark Plug Europe in Belgium will begin producing conventional spark plugs designed by Nippondenso from August. The Japanese group will supply some of the materials and will market the finished products under its own brand name. Champion is expected to produce around 8m units a year for sale by Nippondenso in Europe.

The build-up of Nippondenso manufacturing facilities in Europe coincides explicitly with the development of Japanese-owned car production. When Toyota and Honda, the Japanese car makers, begin production at their UK assembly plants later this year, they will be the two main customers for Nippondenso's UK-based air conditioner and heater plant.

Mr Michio Ohiwa, managing director of Nippondenso International (UK), the holding company for the group's European manufacturing operations, says Nippondenso had a turnover in Europe of around £170m in 1991, based largely on imports from Japan.

By 1995/96 – when both the Toyota and Honda car plants should be reaching their outlined capacities of 200,000 and 100,000 cars a year respectively – Mr Ohiwa forecasts the company's turnover in Europe should have tripled to more than £450m a year, of which local production could be around 50 per cent.

The local content of the UK-produced air conditioners and heaters is expected to start at around 60 per cent (based on operating costs) rising to 75 per cent as volumes increase.

Mr Ohiwa acknowledges it is proving difficult to develop a new customer base in Europe. Nippondenso has based its long-term European strategy, however, on deriving half of its sales from the Japanese transplants and half from the traditional European car makers (including Ford and GM).

Nippondenso has strong backing for its international expansion. It is firmly anchored in the sphere of Toyota, financially probably the strongest of the world's car makers, which holds a 23.3 per cent stake in the company. Toyota, Japan's largest and the world's third-largest vehicle maker, is Nippondenso's biggest customer, accounting for around 50 per cent of its turnover.

The company's main *strengths are in car heaters* and air conditioners, which in 1990 accounted for 35.3 per cent of consolidated group sales of Y1,511.6bn (£6.4bn), and in electrical automotive and electronic control products which contributed 30.4 per cent of group sales. Fuel management systems accounted for a further 15.2 per cent of sales and radiators for 5.8 per cent. (Net profit peaked at Y63.1bn [$497m] in 1990, but pre-tax profits fell by around 25 per cent last year.)

The share of net sales accounted for by car heaters and air conditioners has gradually fallen since the mid-1980s, as advances in electronics have led to a growing importance for fuel management products such as electronic fuel injection systems.

Nippondenso dominates its domestic Japanese market capturing more than 40 per cent of many of the product segments in which it manufactures including 55 per cent of radiators, 51 per cent of air conditioners and 52 per cent of electronic fuel injection systems.

Japanese automotive components industry 1989

Companies with sales of more than $1bn

	$m
Nippondenso	9,056
Bridgestone	8,799
Sumitomo Rubber	3,015
Sumitomo Metal	2,951
Aisin Seiki	2,898
Sumitomo Electric	1,970
Yazaki	1,848
Diesel Kiki	1,757
Yokohama Rubber	1,664
Mitsubishi Electric	1,515
Koyo Seiko	1,507
Hitachi	1,500
Toyo Tire & Rubber	1,362
Calsonic	1,283
NTN	1,275
Toyoda Gosei	1,258
NEC Corporation	1,159
Koito Manufacturing	1,099
Atsugi Unisia	1,032
Asahi Glass	1,014
Nippon Seiki	1,006
Total	**48,968**
Number of companies	21
Segment average	2,332

Source: The Economist Intelligence Unit

At the same time it claims world market leadership for 11 of its product lines, including starters and alternators, radiators, car heaters and air-conditioning compressors, and windscreen washers.

It is in second place in car air conditioners behind Harrison Radiators (a subsidiary of General Motors), in windscreen wipers, and fuel pumps and injectors for electronic fuel injection systems behind Robert Bosch of Germany, and in ignition systems behind Delco (a GM subsidiary).

While Nippondenso's investment in manufacturing facilities in the US began in earnest in the mid-1980s – within two to three around 60 per cent of its North American sales will be derived from the local Japanese car plants and 40 per cent from the big three US car makers, GM, Ford and Chrysler – its incursion into Europe began in 1989.

The first step was the announcement of an intended 50:50 joint venture in Spain for distributorless ignition coils with Valeo, the leading French automotive components maker. This was followed later that year by the acquisition of IMI Radiators, now re-named as ND Marston. In 1990, it disclosed plans for the £65m investment in the Telford air conditioner and radiator plant.

The Telford plant is expected to have a workforce of more than 450 by 1995 when output is intended to reach 400,000 air conditioners and the same number of heaters a year. ND Marston has a workforce of around 1,000 producing mainly radiators and oil coolers, while the workforce at the Spanish ignition coil plant is expected to grow from 70 to 150-200 at full production.

Nippondenso has tried all the obvious routes in Europe for foreign expansion: investment in a green field site with the Telford plant, acquisition with IMI Radiators, joint venture with Valeo in Spain and contract manufacturing with Champion.

According to Mr Ohiwa the most favoured route remains the joint venture.

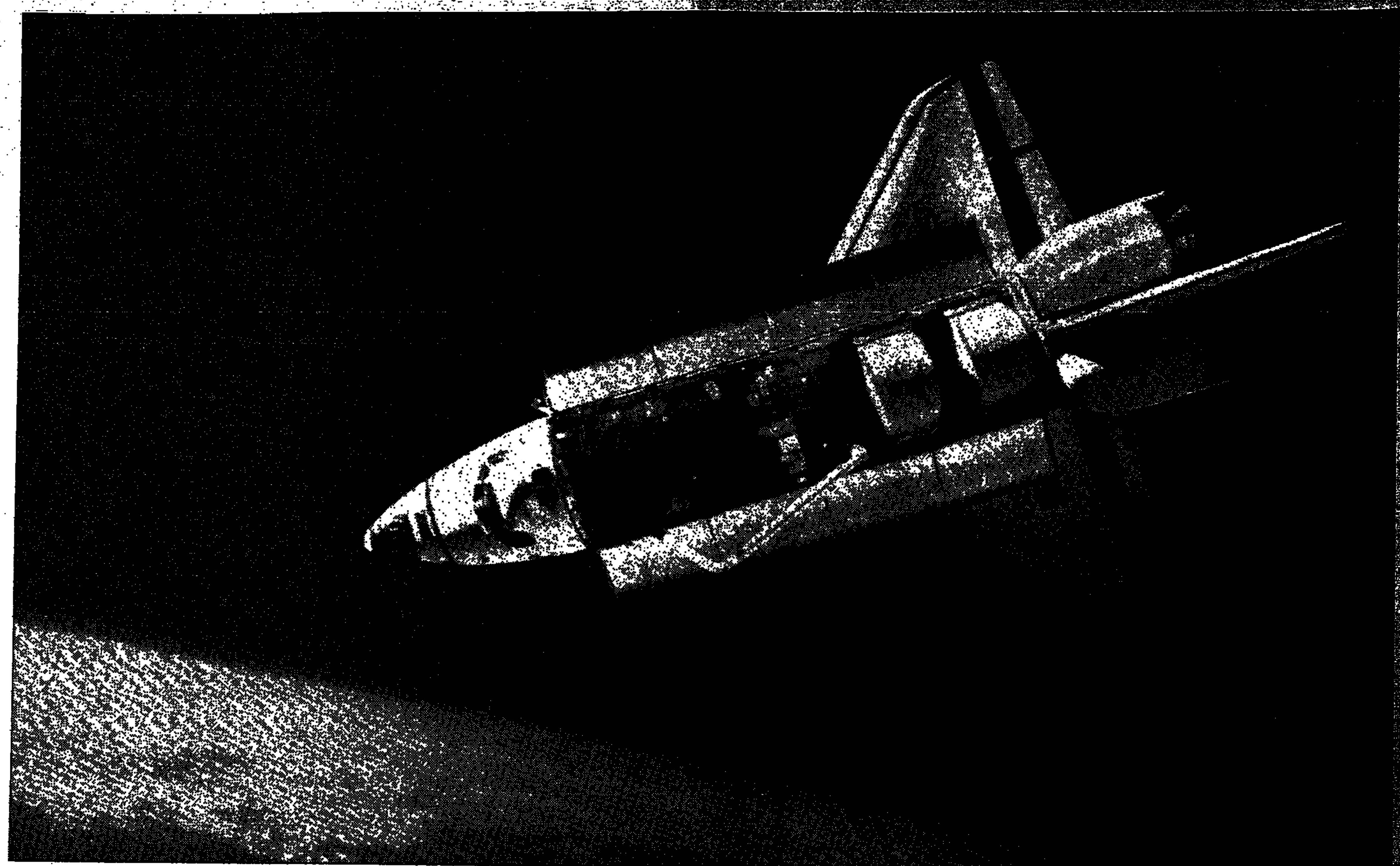
The joint venture with Valeo in Spain ended prematurely last year, even before volume production began, because of Valeo's decision to pull out of the ignition sector with the sale of its operations to Sagem, the French electronics and defence group. The Spanish venture is now a wholly-owned Nippondenso subsidiary.

Equally, the original takeover of IMI Radiators was dictated more by force of circumstances than design. Nippondenso was well into negotiations about a production agreement with IMI Radiators, when it was shocked to learn the company was for sale, and for sale by auction, an unusual business approach for Japanese. IMI Radiators was its first significant takeover worldwide.

The subsequent burgeoning of its relationship with Magneti Marelli allowed it to get back on the favoured joint venture track, however, by bringing in the Italian company as a minority partner.

Mr Ohiwa insists that Nippondenso is concerned not to create overcapacity in its market sectors in Europe, and that *joint ventures offer the best* way of establishing local production with the least disruption.

Kevin Done



BAHRAIN

□ The economy: a new, long-term strategy is planned — see page 2

□ Tourism industry: the Gulf's bright lights beckon — see page 4

Tuesday July 14 1992

Quest for greater economic diversity

Bahrain has only modest oil reserves, but it has become an important financial and trading centre in the Gulf. Now the island-state is seeking an even more diversified economic future, writes Roger Matthews, Middle East Editor

Sheikh Isa bin Sulman al-Khalifa, the Emir of Bahrain, has guided his country with admirable steadiness. The economy is underpinned by an output of around 112,000 barrels of oil a day

LAST year's great escape by the Arab nations of the Gulf from the predatory grasp of President Saddam Hussein of Iraq is not providing the long-term relief that seemed probable at the time. Official optimism abounds; but there is also a growing appreciation that the American-led military victory has done little to resolve the economic, financial and political tensions of the region. Bahrain has more reason than most to regret the *failure*.

With a population of 518,000 – 35 per cent of whom are expatriates – and limited natural resources, it relies heavily on international confidence, relative regional stability and a measure of neighbourly co-operation. Bahrain's economy is underpinned by a modest 112,000 barrels of oil a day; just 42,000 barrels of this produced onshore, the rest coming from an offshore sharing arrangement with Saudi Arabia.

Since independence in 1971, the most obvious of Bahrain's economic characteristics has been that it will be the first Gulf nation to face a future substantially without oil. At current rates of extraction, its onshore field will cease pumping early in the next century.

That mattered less before the *Gulf war. Now that its wealthiest* neighbours have used most of their financial reserves to fund the international war effort, Bahrain has less of a safety net and an even greater need to plan a more diversified economic future.

That imperative goes some way to explain the apparent contradiction of Bahrain simultaneously providing base facilities for the US Navy, while urging better relations with *Iraq. The paramount need for* military security is dealt with by the US, but Iraq and Iran (neither noted, in the past, for kindly intentions towards Bahrain) are inescapably part of the Gulf's economic future.

Those most involved in planning Bahrain's future talk most about Singapore: "a model for small, island nations," as one senior official put it. Bahrain would like to see itself fulfilling, within the *Gulf Co-operation Council* (which includes Saudi Arabia, Oman, Kuwait, United Arab Emirates, Qatar and Bahrain), several of the roles which Singapore has developed within the Association of South East Asian Nations (Indonesia, Malaysia, Thailand, Philippines, Brunei and Singapore).

For example, Bahrain wants to expand further as an offshore banking centre offering an increasingly sophisticated range of services. It wants to become the principal tourism destination in the region, serving local markets, especially Saudi Arabia, while forming part of multi-destination international tours.

It also aims to attract more international companies to establish their regional headquarters and supply centres; to dominate the local conference and exhibition market and, by offering 100 per cent foreign ownership, to persuade more private investors to look at opportunities for longer-term industrial development.

THESE aims are a not a fanciful strategy, even if, on closer examination, several of its concepts appear difficult to develop. Those difficulties are exacerbated by the unco-operative aspects of the GCC.

Formed in 1981, in direct response to the war between Iraq and Iran, the six GCC members initially denied any military or defensive purpose. It was, they insisted, primarily a trading and economic organisation. In 1990 its military role was forced into the open by Iraq but, to Bahrain's great disappointment, this has still not been matched by greater enthusiasm for regional economic agreements.

The dilemma for Bahrain is acute. It has been running a *budget deficit for more than* six years; projected last year at 9 per cent of gross domestic product.

On present revenue estimates it will need to borrow or (better) to be given most of the capital for the development projects required both for diversification and to create new jobs.

But Bahrain's capacity to borrow is limited, and support from other Gulf countries is *running at only a third of* promised levels. Of the annual total of $150m pledged to Bahrain, no payment has been received from Abu Dhabi since 1982, and Kuwait stopped paying in 1990.

"We are grateful to Saudi Arabia for being the one country to meet all its commitments," says Mr Ibrahim Abd al-Karim, the minister of finance and national economy.

Sheikh Khalifa bin Sulman al-Khalifa, the prime minister, emphasised in an interview that Bahrain had not sought compensation from its wealthier Gulf partners for the serious losses it had suffered during the crisis; neither had any been offered. What was more important for Bahrain, he stressed, was long-term economic regional agreements, *especially those which aimed* at preventing duplication of effort.

In the absence of such agreements, Bahrain hesitates to embark on projects; their viability could be undermined by its neighbours. The prime minister, choosing his words with care, says that business tends to go where there is most liquidity. (In other words, to countries with more money than Bahrain.) To offset this tendency, Bahrain would like a commitment from its GCC partners not to compete in specific areas.

Its chances do not look good. While international military intervention has blunted the aggression of Saddam Hussein, it has done nothing to defuse other, lesser, regional sensitivities.

In the wake of the Gulf war a rash of border disputes has resurfaced, including Qatar's claim to sovereignty over the Hawar islands, an area close to one-sixth of Bahrain's total land area.

Bahraini officials were dismayed by Qatar's unilateral approach to the International Court of Justice and by its declaration of territorial waters stretching close to Bahrain's beaches. (Why Qatar chose this path is not understood in Bahrain, but the possible interpretations of Doha's motives make fertile ground for conspiracy theorists.)

The resurgence of Iranian influence in the Gulf, under what is supposed to be an emphatically more pragmatic leadership, has created economic opportunities and political anxieties. Bahrain's bankers travel hopefully to Tehran; in the meantime its internal security forces keep wary eyes on hundreds of Iranians attending the biggest trade fair in Manama since the over*throw of the Shah.*

SHEIKH KHALIFA, while stirring up regional sensitivities by discussing relations with Iraq, also includes in his long-term vision the possibility, one day, of Iraq and Iran joining a GCC which has sorted out its present internal difficulties. Bahrain wants a continued American military presence in the Gulf, but it does not want Syr*ian and Egyptian forces to* be deployed in its defence; it protests at what it sees as western attempts to divide Iraq into three.

Having to face in different directions simultaneously may be the fate of small nations in conflict-prone parts of the world. But it also provides a convenient shield for deflecting other unappealing suggestions. One idea taken from Singapore is round-the-clock broadcasting by the British Broadcasting Corporation. The uncensored provision of international news helps to promote Bahrain's image as an information centre, but the official who, memorably, saw "the breath of fresh air blowing through our antenna," did not suggest that this would have domestic political repercussions. On the contrary, *the prime minister is* emphatic that Bahrain, once the standard bearer of democratic institutions in the Gulf, will not try again to set the pace for political liberalisation. Sheik Khalifa praised Saudi Arabia's announcement of a consultative council (its members have still to be named), and said that anything which *helped to form opinion was* useful.

On the other hand, security was a life and death issue for Bahrain. It was difficult to be a good democrat if that meant sacrificing security, he said. Recent events in Algeria will have reinforced that view.

The absence of greater public accountability, however, does limit the effectiveness of Bahrain's search for a more broadly based economic future. *Studies of Singapore will have* revealed other, perhaps more pertinent, reasons for that country's economic achievements. Singapore has a functioning if rather regimented parliament. Singapore ministers and senior civil servants are well paid, but face severe penalties if found guilty of any financial impropriety. *Singapore's working population* accepts taxation; enforced savings are deducted at source; there is a national acceptance that the state provides nothing for free.

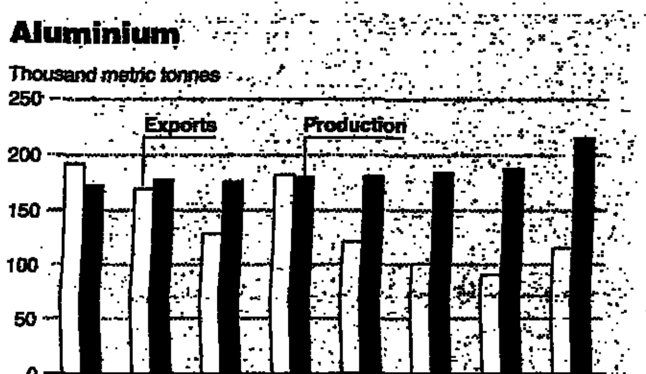
Few of those items are likely to figure on the agenda of either government or governed in Bahrain. On the contrary, the traditional, family-oriented, paternalistic style of national management shows every sign of persisting.

After the successive Gulf wars of the past decade, it can be argued that Sheikh Isa bin Sulman al-Khalifa, the Emir of Bahrain, has guided his country with admirable steadiness and that there is little demand for change. Neither, perhaps, will there be, while the national exchequer is sufficiently well funded to maintain *popular expectations.*

With over 60 per cent of government revenue coming from oil, limited opportunities for reducing recurrent expenditure and the population increasing at about 3.4 per cent annually, the Bahrain government is aware that something will have to be done.

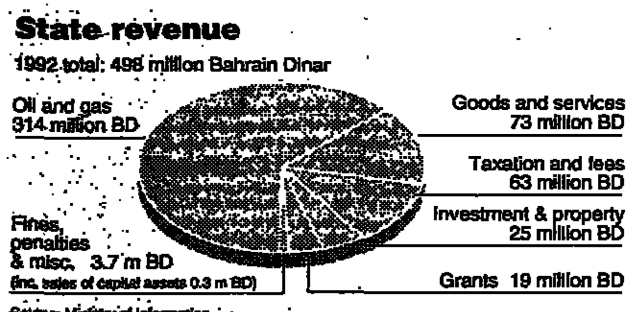
Its strategy for facing a future without oil may not appear entirely convincing, but perhaps it need not be, given the *relatively small* contributions required to put the national finances on a more even keel. No country in the Gulf sees a greater need for regional stability, prospering local economies and – critically – open-handed friends.

Aluminium

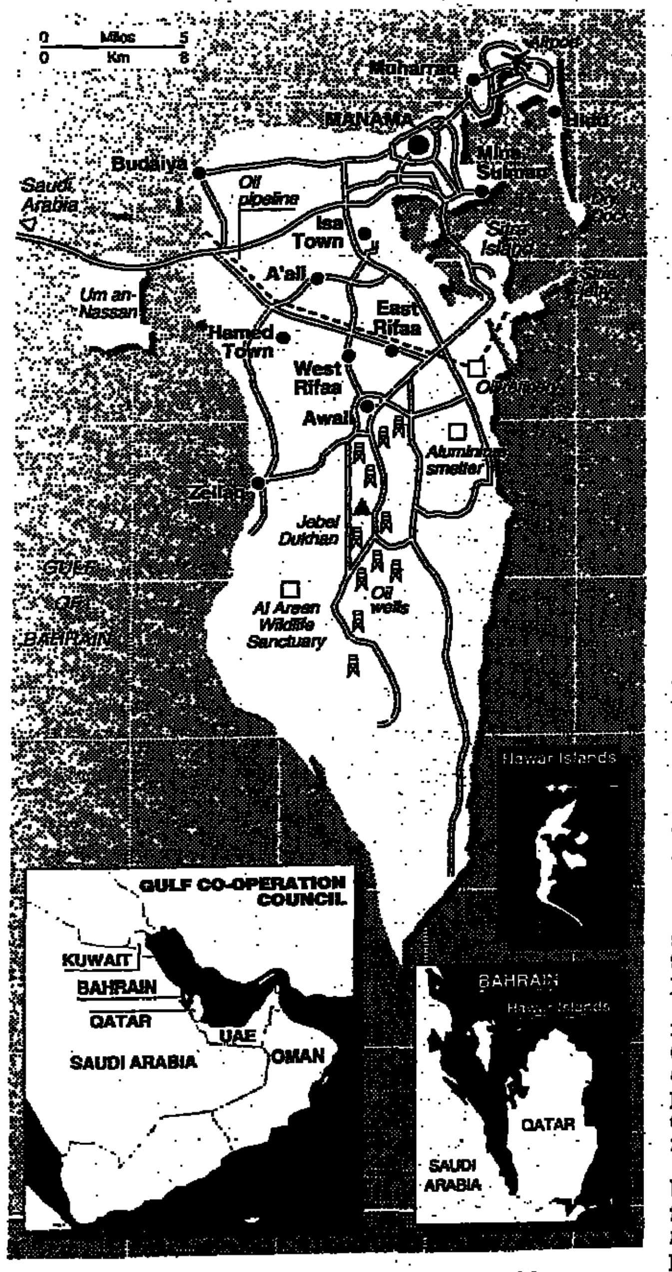


Source: Ministry of Information

State revenue



Source: Ministry of Information



□ BAHRAIN is an archipelago consisting of 33 islands – the largest is Bahrain island.
□ The country has a stable, progressive, liberal government, supportive of private enterprise.
□ Bahrain's currency, the Bahraini dinar (= 1,000 fils), has been pegged to the US dollar for more than a decade.
□ Arabic is the official language. English is widely spoken in business.
□ Bahrain International Airport is one of the busiest in the Gulf.
□ Flight times from Bahrain to leading regional centres – in an hour: Abu Dhabi, Dubai, Kuwait and Riyadh; Doha, 40 minutes; Dhahran, 10 mins; Muscat, 1 hr 30 mins; Jeddah, 2 hrs 10 mins; Tehran, 2 hrs; Karachi, 2 hrs 30 mins; Delhi, 3 hrs.
□ The telecommunications system is among the most advanced in the world.
□ Bahrain's climate is hot in summer and mild in winter.
□ Temperatures are coolest from December to March; the most pleasant period is from November to April.
□ Compared with leading European and US cities, the costs of hotel accommodation, labour, office rents, electricity and water are reasonable; and even within the Middle East, they are competitive.
□ Main exports include: mineral fuels, aluminium, refined oils and lubricants.

THE ECONOMY

Long-term strategy is set to evolve

Cheerfully, Mr Ibrahim Abd al-Karim, minister of finance and national economy, accepts that Bahrain is at a critical moment in its economic development. But he insists that he is not in the least pessimistic about the future.

For an economy recovering from the regional impact of an eight-year war between Iran and Iraq, followed by President Saddam Hussein's invasion of Kuwait, the headline figures as presented by the minister do not look at all discouraging: real growth this year should reach 2.5 per cent, inflation will be less than 2 per cent, unemployment is between 1 per cent and 6 per cent, depending on how it is calculated, and oil prices continue to look reasonably firm.

It is against this background that Bahrain will attempt to evolve a new long-term development strategy over the next few years, as against the short-term responses forced on it by the past decade of regional conflict.

"Instead of having to apply doses of morphine, the cabinet can now really begin to develop a strategy for the future," says Mr Abd al-Karim.

Some elements of that strategy are in place. For example, Bahrain allows 100 per cent foreign ownership of companies, permits overseas consultants, engineers and other professionals to establish themselves without local sponsors, has launched an industrial development bank, and as a reaction to the number of offshore banking units leaving the island set up a promotional unit designed to stem its decline as a financial centre.

Under consideration or in the pipeline is a board of trade that will promote the country's private sector and a cautious programme of privatisation. Mr Abd al-Karim says that a start has been made by selling some shares in hotel companies and this may be expanded to take in shipyards, dairy products and date processing. After that, the government's 40 per cent stake in the national telecommunications company may be reduced, as well as the shareholding in the National Bank of Bahrain. "However, the approach will be slow. It will take time," says the minister.

Two closely related factors appear to have determined Bahrain's shift of economic emphasis. First, the growth in the size of the budget deficit and second, the need to find alternative sources of revenue to offset the inevitable decline in the contribution from oil.

Private sector economists in Bahrain claim to have difficulty in making the published government figures add up, especially in relation to the budget, but according to Mr Abd al-Karim the gap between revenue and expenditure in the last financial year was BD65m, somewhat better than the forecast BD100m.

Although the government has no trouble in meeting the deficit through local borrowing, mostly by issuing short-term treasury bills, it is anxious to ensure that it is capped at no more than BD100m, and then progressively reduced as a percentage of gross domestic product.

PRIVATE sector sceptics remain unconvinced that the government can meet this target while financing key development projects and maintaining free public services for a growing population – "there's no way that these figures can be made to add up," says a prominent local businessman. "Either there have to be some large hand-outs by Saudi Arabia and Kuwait, or even more projects will have to be postponed or cancelled."

The cabinet has been looking, in conjunction with the International Monetary Fund, at possible measures to increase revenues which could be introduced without risking political stability. Most traditional western methods appear to have been ruled out, such as a tax on incomes or a value-added tax. Charging anything more than a nominal amount for utilities would be another politically adventurous step to make. Import duties on items such as alcohol probably have scope for further increases and modest amounts can be raised through property and licensing.

"The other real snag for Bahrain is that it cannot get seriously out of step with its neighbours. People here will not accept a significantly different system from the one that operates in, say, Saudi Arabia. If it is free in Riyadh then it has to be free in Manama," says a diplomat.

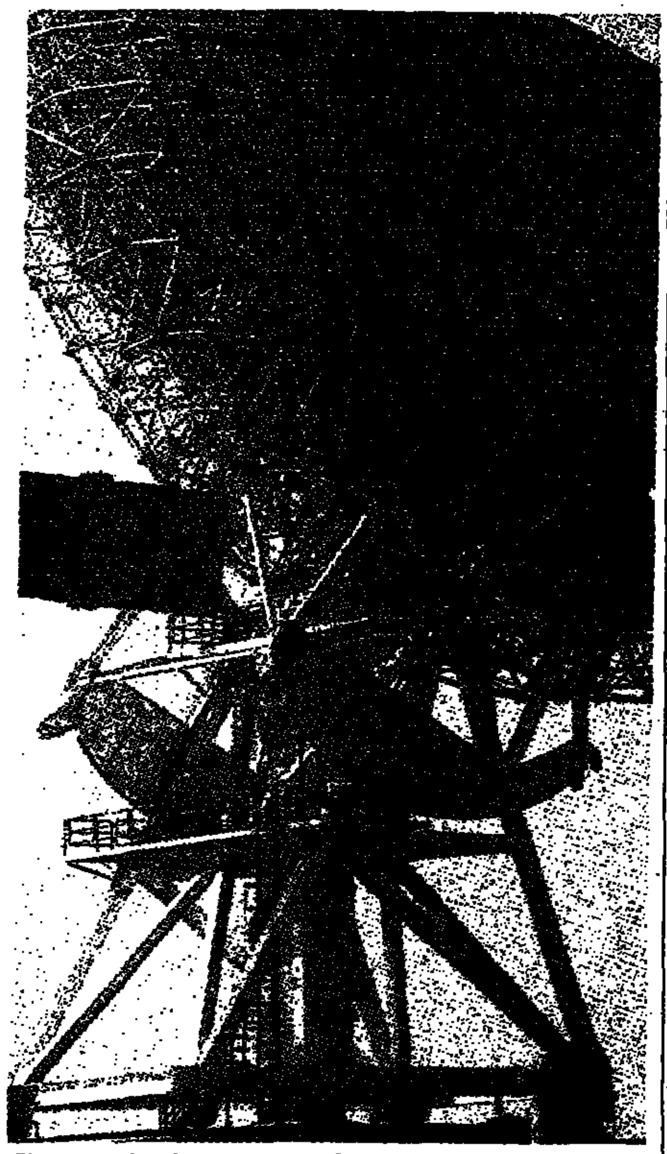
Under the traditional system of government patronage it is difficult to see great scope for improvements on the revenue side. But there is an inevitability about the decline in revenues provided by oil which currently provide 65 per cent of the total. Mr Abd al-Karim says he is grateful that production techniques have been able to check the decline in output at the level of 42,000 barrels a day as that provides a breathing space for the new policies to be implemented.

Government spending, of course, is another matter and outside official circles there is critical discussion of priorities, waste and the dispensation of patronage. Mr Isa Abdullah al Borshaid, under-secretary for finance and national economy, says there are three criteria for investment decisions: economic viability, job creation potential and the ease with which new projects can integrate with existing industries. Of those requirements there is no doubt that the government is increasingly looking at the potential for creating jobs.

The need is threefold: first to mop up some of the pool of unemployed, to provide work for the increasing number of young people coming on to the market each year, and to check the increase in the size of the expatriate workforce. Because of budgetary constraints, the government has imposed a ceiling on the numbers of public sector employees, still the preferred occupation for the majority of Bahrainis, and is funding training schemes in such areas as banking and hotels. It realises that there are unlikely to be enough suitable opportunities on the island to meet future demand and is therefore pushing the other members of the GCC to accept greater labour mobility. The private sector is also well aware of the relative attractiveness of employing expatriates who, in general, are willing to work longer hours for less pay than Bahrainis and can be dismissed more easily. Officials say that far more nationals are to be found in a greater variety of jobs than 10 years ago, but there is a lack of enthusiasm for some types of work and unrealistic expectations on the part of some returning graduates. The evolution of Bahrain's economy could depend as much on changes in personal attitudes as it does on the strategy mapped out by ministers and their expatriate advisers.

Roger Matthews

Other revenues are needed to offset the fall in oil's contribution



The sheikhdom has an advanced communications system

INVESTMENT

New decade ushered in with a spring clean

THE Gulf crisis blew a chilling gust through the offices of Bahrain's economic decision makers, but it appears to have had a galvanising effect.

In the 16 months since Kuwait's liberation, and a war which temporarily rocked financial and economic confidence in Bahrain, the government has launched a slew of initiatives to sell itself as never before to foreign investors; created a body dedicated to strategic thinking; started applying a scalpel to off-putting bureaucracy, and has bound its new marketing effort in glossy covers to mail to the world.

There is nothing new in Bahrain's strategy; since the late 1960s this has been to encourage any new industries on the island which will wean it from dependency on oil reserves that are set to run out early in the next decade. Nor is there anything new in what Bahrain is advertising: its role as a trade and industry "hub" for the Gulf and Middle East.

What is new is the hardness of the sell. "After the Gulf war it was like a spring clean," says Mr Ahmed Hubail, assistant undersecretary for commerce. "We decided to enter the 1990s on a commercial basis."

The Gulf war shock was not the sole catalyst for Bahrain's sudden promotional drive, though many locals suggest that the war's sharp blow to the banking sector helped to persuade the government that, to generate growth, it cannot forever rely on Bahrain's regional pre-eminence as a financial centre.

Another factor was the disappointing part Bahrain played in the post-war reconstruction of Kuwait, and the subsequent realisation that the eventual rebuilding of Iran, and perhaps also Iraq, both of which have also been touted as potential prosperity for Bahrain, might in fact lie forever over the horizon.

But a third spur to Bahrain's decision makers has also been the success of Dubai, its richer and, to date, more energetically self-promoting rival down the Gulf, in selling itself as the region's natural hub for trade and industry. "What's got them going is jealousy of Dubai," says one diplomat. "They've seen Dubai getting everything."

Dubai, which is also hell-bent on diversifying its economy from oil, set up the Jebel Ali free trade zone and port in 1985 which, thanks to a heavily-financed marketing drive and a crack at cutting traditional Gulf-style bureaucracy, has attracted 410 new companies and has room for about 7,600 more. The main draw to Jebel Ali was its unique offer (in the Gulf) of allowing foreign companies 100 per cent ownership of their interests in the zone.

Unique, at least, until Bahrain picked up the gauntlet earlier this year and decreed that 100 per cent foreign ownership would be permitted on the island too – subject to these companies undertaking to "use Bahraini resources and be in the country's best economic interests." This single step, which abandoned normal Gulf practice of limiting foreign investors to a 49 per cent share of any local company, is the focal point of its new investor-friendliness.

Next, the government set up the Bahrain Marketing and Promotions Office (BMPO) – itself closely modelled on Dubai's Commerce and Tourism Promotions Board – to put in one office the responsibilities for company

Continued on Page 3

BANKING

A lot of brave faces

BAHRAIN'S tight banking community has never been short of brave faces, nor of recent reasons to don them – not least because this community has tightened somewhat over the past few years.

In the oil-booming early 1970s, when international and Arab bankers converged on the island to recycle the region's sudden petrodollar riches, 75 offshore banks made their base in Bahrain. An oil price slump and two Gulf wars later, the figure now stands at 48; and it is falling.

Bahrain Arab International Bank is liquidating assets in readiness to close. Question marks hang over others – such as Kuwait Asia Bank – which have been unable yet to claw back into profit, despite huge retrenchments. Other small Bahraini Offshore Banking Units (OBUs) which have returned to the black have done so modestly, and some, such as Bahrain Middle East Bank, are energetically putting down roots overseas. Some have slimmed their operations down to a very bare minimum.

The emirate's contraction as a banking centre is as much a natural consequence of the region's banking and economic evolution as any response to the series of political shocks which have buffeted the region – most recently, of course, the Gulf war, which shattered confidence in the OBUs and sliced their net assets to a record low of just over \$48bn. (They have since recovered to \$55bn, but remain well below 1988's record of \$68bn).

The honey which drew the world's bankers to Bahrain was the servicing of Saudi Arabia's sudden wealth in the 1970s: in project lending and treasury operations beyond the sophistication of the insular banks in Riyadh and Jeddah, while offering international expertise and connections to recycle petrodollars.

Today, Saudi's fast-matured banks can manage all these tasks profitably and without assistance. Furthermore, the kingdom's growing domestic capital market, fuelled by the government's thirst for budget deficit finance, has reduced the need for Saudi banks to place money offshore in Bahrain.

The liquidity of Saudi government instruments during the Gulf war contrasted with Bahrain's short period of banking isolation, as foreign banks ran scared and cut off lines to the island's bankers.

The upshot has been to sow disarray among the smaller OBUs, as project lending, interbank markets and even a large portion of trade finance have all fallen. Much of it has moved south to Dubai, with the growth in the more southerly emirate's trade – particularly with Iran.

Allied to this is the diminution of Bahrain's role as a foreign exchange market stopover between the US, European and south-east Asian markets; a role Bahrain has seen eroded by technology and the increasing overlap of trading hours between dealing centres.

A second wave of closures and cutbacks among the international banks on the island is therefore under way, following that of the mid-1980s, occasioned by the bad debts caused both by the oil price slump and intemperate Latin American and other sovereign lending.

A concomitant of this is to leave the field more profitably open for some of those banks which have survived. As a rule, the best placed of these are banks either with strong shareholder support, with a clearly defined market niche or with a head office overseas prepared to retain a commitment to the area. Of the locally-incorporated OBUs, three in particular stand out: Gulf International Bank (GIB), Arab Banking Corporation (ABC) and Investcorp. They have always been the strongest performing trio on the island.

None has been immune from the recent shocks, although Investcorp, which plugs the wealth of "high net worth" Gulf locals into direct investments in the US and Europe, has been affected more by depressed markets there than by shocks in the Gulf. Its net profits last year shrank to \$52.2m from \$66.3m – but 1991 was the bank's second best year.

Neither GIB nor ABC survived the Gulf war without losses, but both returned to the black in 1991, with GIB turning around a loss of \$422m, after restructuring, into profits in 1991 of \$46.5m. ABC steered from a loss of \$91m to pretax profits of \$45m.

GIB has undergone the most convulsions, having shed a large tranche of what included (its managers now admit) some very good assets to stay liquid during the crisis. It has cut staff by a quarter and trimmed costs by \$17m a year, to \$40m.

As the Gulf's – indeed, the Middle East's – banking hub, Bahrain has no immediate peer

To shake off its awkward Iraqi shareholding, the other bank's other six owners, Saudi Arabia, Kuwait, the Abu Dhabi Investment Fund, Bahrain, Oman and Qatar, this year approved the bank's takeover by the Gulf Investment Corporation – in turn owned by the Gulf Co-operation Council states, which injected \$450m to recapitalise the bank after GIB's original shares were written off.

Thus restructured, Mr Peter Sura, the bank's assistant general manager, is predicting "a very good year" for GIB, based particularly on the bank's potential pickings in regional syndicated lending for the numerous oil, gas and power projects, along with corporate lending to the buoyant Saudi private sector and strong local trade and treasury work.

Mr Abdulla Saudi, ABC's president and chief executive, has led the bank overseas in search of profitable growth; in 1991 it established ABC International to consolidate its large European operations.

ABC is now turning its attention back to the Arab world. Mr Saudi says he wants ABC to develop a retailing presence in as many Arab countries as possible; in the last 18 months, in spite of unpromising economic circumstances, he has opened seven ABC branches in Jordan. Algeria is ABC's next likely target, and, possibly, the Gulf – though Mr Saudi says he would prefer to establish a retailing operation in more than one centre at once, possibly through acquisition. Political developments in Algeria may put that project on hold.

ABC and GIB are Bahrain's biggest banks, and best known internationally. They are sanguine about their immediate prospects, given the present relative buoyancy of oil prices, booming private sectors in Saudi Arabia and the UAE, and the appetite among the region's governments for borrowing to fund their biggest projects.

These factors are putting good business in the way of those few foreign banks, many of them American, which have retained a substantial presence in Bahrain through the thinner years. Chase Manhattan, for instance, is optimistic about the outlook for lending to government and parastatal institutions, while Citicorp retains a substantial treasury operation in Bahrain, putting \$170bn through its dealing room monthly – "I wouldn't write this place off," says one local banker. "There's just too much money in the region."

However optimistic these institutions are about banking prospects, Bahrain is unlikely to blossom afresh as an international banking centre.

As the Gulf's – indeed, the Middle East's – banking hub, Bahrain has no immediate peer, in spite of the Saudi banks' strength and liquidity and Dubai's flourishing trade business.

Neither the kingdom nor the UAE offers the strength of financial regulation offered by the Bahrain Monetary Authority (advised by the Bank of England), nor do most bankers based on the island feel that Riyadh, Abu Dhabi or Dubai can offer the same attractive mix of good communications, congenial working environment and breadth of associated financial services.

But further growth in Bahrain's financial sector would seem to depend on the island's becoming the centre of a bigger, better co-ordinated and more sophisticated capital market in the Gulf. This is an ideal the six Gulf Co-operation Council (GCC) states (Saudi Arabia, Kuwait, United Arab Emirates, Bahrain, Oman, Qatar) have long espoused, but never embraced.

Bahrain's determination to foster regional developments along these lines has led it to create a new unit in the finance ministry, advised by Mr Michael Lee, a former senior director at Dean Witter Capital Markets, to promote the idea, both locally and to international bankers.

"I see opportunities everywhere," says Mr Lee. "The question is, whether there will eventually be a logical financial centre, or will the market place fail to come about for artificial reasons."

Two factors in particular have conspired to prevent the GCC from developing into a single capital market. One is the region's corporate culture, whereby most large enterprises are privately (and jealously) held firms; financed privately, and without any apparent desire on the part of most owners either to sell shares or to look for finance.

The second is the ambition of each Gulf state to develop its own capital markets, even if such developments run defiantly against any logic of scale. Bahrain, Kuwait, Saudi Arabia and Oman all have their own stock markets of varying degrees of activity.

Until such sovereign pride is overcome, and a Gulf-wide capital market given a political push by the GCC, Bahrain's aspiration to become the Gulf's booming capital markets centre will remain just that.

Mark Nicholson

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FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

كلية الإعلام

ALUMINIUM INDUSTRY

Cheap power sets the pace

THE aluminium industry *in the Gulf is fast coming* to rival the trendy status of the cement industry in the region – a development which, apparently, no self-respecting state can be content without.

Bahrain set the pace by establishing its Alba aluminium smelter in the early 1970s. Dubai followed with its own smelter a few years later.

Iran began work on one this year, and the Saudis are still investigating whether they can build an aluminium plant with the help of one of their offset investment programmes. Even Qatar is said to be thinking of joining the fray.

The compelling logic behind these moves is cheap power; derived particularly from the *region's huge supplies of gas.* "Our energy costs are not quite as low as those from, say, a Canadian hydroelectric plant – but they are not much more expensive," says Mr Gudvin Tofte, chief executive of Alba. Moreover, although Bahrain has only about 10 years' worth of oil reserves left, gas supplies are expected to last another half century.

Local downstream industries are seeking to expand — to head off regional rivals

The rash of Gulf smelters *also reflects the fact that* environmental opposition to setting up big aluminium plants is far less of an impediment in the industry-hungry Gulf than in Europe or North America.

For such reasons, Mr Tofte sees no reason for Bahrain's smelter to fear its new local competitors – "it won't matter," he says. "Particularly with the shutdown of aluminium capacity in Europe."

Where other regional smelters could pose some threat, though, is to Bahrain's downstream aluminium sector; the government has high hopes that this will suck in foreign investment and offer just the sort of labour-intensive growth the island needs to hire job-seeking Bahrainis, who now make up about 85 per cent of the up and downstream industry's workforce.

The more Gulf countries which can offer potential investors the advantage of a smelter on their doorstep, the more thinly spread any downstream investment will be in Bahrain.

But the island has had some early post-Gulf war successes. Reynolds, the US metals group, has committed itself to a $40m *(or so)* joint venture with local investors to build an aluminium foil plant, and Alcoa, the US aluminium giant, is also planning a smaller aluminium bottle closure plant on the island, also with local investors.

Local downstream industries are also seeking to expand – to head off regional rivals, and to absorb the new supplies of metal coming from Alba's expansion programme.

"It's a question of survival," says Mr Mahmoud al-Soufi, general manager of the Bahrain Aluminium Extrusion Company, one of the island's four main first-tier downstream operations. "To be competitive we have to expand, be more efficient and start recycling metal."

By October, a month ahead of schedule, Alba expects to have completed its $1.5bn plan to raise production capacity to 460,000 tonnes a year. The smelter, which is 77 per cent owned by the Bahrain government, 20 per cent by Saudi Arabia and 3 per cent by Breton Investments, a German company, will then be considerably the Gulf's largest, and the third biggest single-site smelter in the world.

Dubai, Dubai's smelter, also completing an expansion, now produces 240,000t a year. The Iranian smelter (being designed and built with help from Dubai) is expected to come on stream in 1994 with output of 220,000 tonnes later rising to 350,000 tonnes.

ABOUT half of Alba's present output of 250,000 tonnes a year is absorbed locally; once the expansion is complete industries in the area are expected to purchase about 150,000t tonnes of ingots. The remainder will earn Bahrain in the region of $600m a year in export sales at present prices.

Most of the domestically-consumed metal will go to Bahrain's four main downstream operations: the 51 per cent government-owned Bahrain Aluminium Atomiser Company; the private Midal Cable company; the state-controlled Balexco and the Gulf Aluminium Rolling Company (Garmco), owned jointly by Bahrain and a string of other Gulf governmental shareholders.

Each, now, is either considering or finalising expansion plans. Perhaps the most ambitious of these will be at Balexco; late last month it concluded agreement with Finleader, the Italian group, to build a new extrusion and recycling plant in an investment worth about $35m. The joint venture company, in which Finleader will have a 49 per cent interest, will be called Gulf Aluminium Industries Company. It will nearly treble Balexco's original design capacity to about 18,000 tonnes a year.

Balexco, which was established in the 1970s to provide building materials for the Gulf's then booming construction sector, has seen this market dwindle with the recession of the mid-1980s; it has only begun to recover in the last year or so.

Its Finleader joint venture is designed to enable Balexco to start manufacturing large transportation and structural extrusions, using the Italian company's marketing arm to attack the European market.

Balexco is also well ahead with plans to join Samsun, the South Korean group, in a joint venture to produce aluminium wheels, possibly with two local private investors. The wheels would be largely for export to the US and Europe, in a five-year investment plan likely to cost about $24m. Balexco is also going ahead with projects to make small, high added-value aluminium accessories such as door knobs, and to upgrade its 15-year-old original plant. The company turned in a $2m profit in 1991, on turnover of $33m.

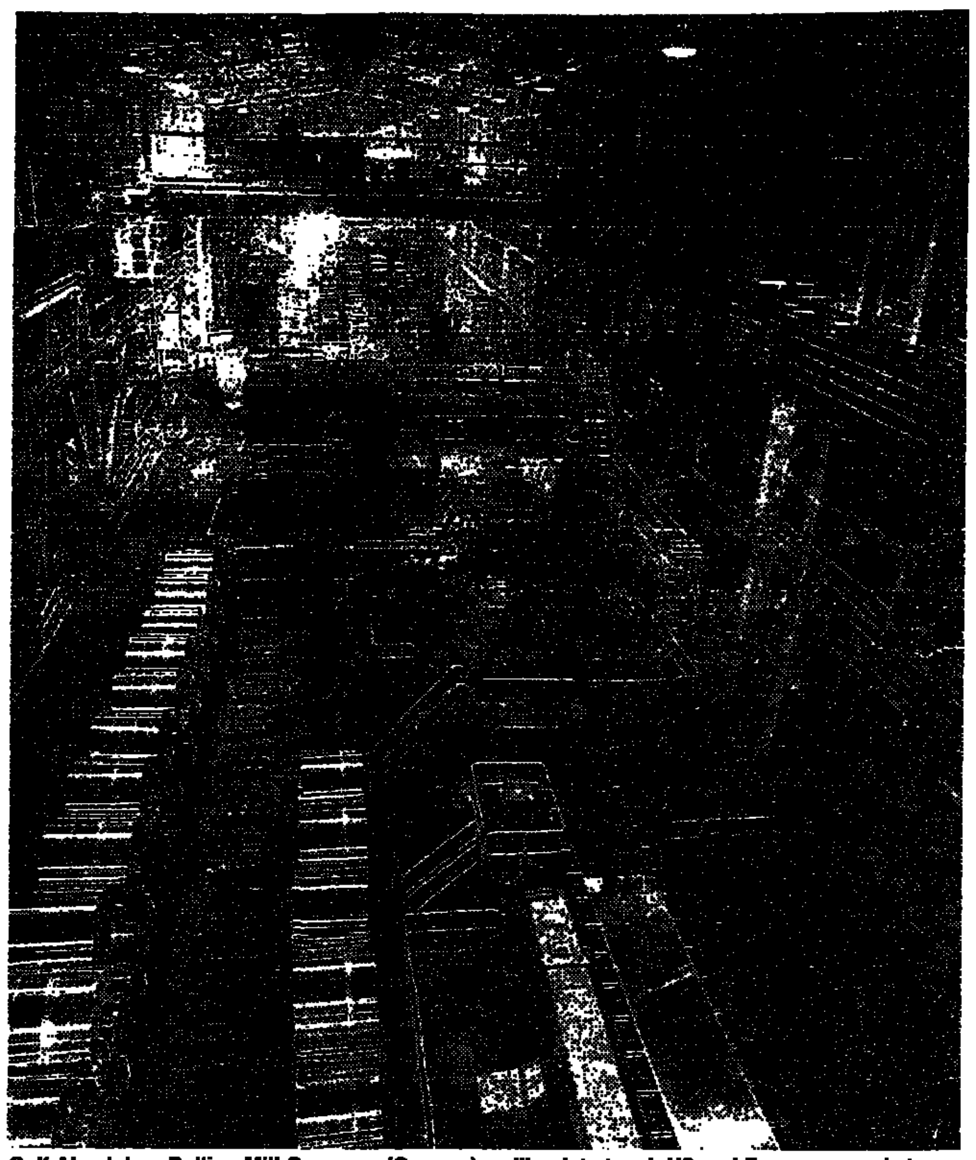
Down the road from Balexco, at Bahrain's Sitra industrial area, Garmco is also looking to raise output from its rolling mill to 110,000 tonnes a year by 1995, from the present 65,000 tonnes, in a $75m investment provided largely by its main shareholders, the Bahrain, Saudi and Kuwaiti governments. Qatar, Oman, the Gulf Investment Corporation (a GCC-owned investment vehicle) and Iraq also have holdings in the venture.

Garmco's intention is to shift focus – from selling mainly construction products into the competitive furnace of the US and European markets – into developing higher added value can-stock and lithographic plates to the Middle and Far Eastern markets.

After expansion, Garmco expects to be producing 30,000 tonnes of can-ends and tabs and up to 10,000 tonnes of lithographic plates.

It also hopes to raise profitability, from levels about which – given its private, sovereign shareholders – it is now silent, by boosting output with a minimal increase of 60-70 workers.

Mark Nicholson


Gulf Aluminium Rolling Mill Company (Garmco): selling into tough US and European markets

Further attractions for investors

□ Continued from facing page:

registration which could previously have taken a prospective investor around two, three or even four separate ministries.

The BMPO also offers seven-day registration for big-name companies, hand-holding through the early stages of an investment and a collection point for all Bahrain's previously scattergun promotional efforts.

Furthermore – and this measure is more softly spoken by officials – the government also appears to be taking a more relaxed approach to Bahrainisation – the desire for companies to hire as high a proportion of Bahrainis as possible.

Although the greatest aim of attracting foreign investors to the island is to assure employment for young Bahrainis, a big percentage of whom (admittedly) are presently jobless, the government appears to have decided that it should not allow Bahrainisation to be an obstacle to attracting companies in the first place. "Bahrainisation is not meant to be penal," explains one official.

It is early to assess the success of these new measures; the BMPO, for instance, is only 9 months old, and presently has a staff of just three. Nevertheless, the moves have already attracted Ericsson, the Swedish multinational, to set up a regional headquarters in Bahrain, while Digital, the US electronics group, has also decided to establish its regional base on the island, complete with a bonded warehouse and distribution centre. Mr Tony O'Riordan, adviser to the BMPO, says a "good dozen other companies" are set to follow.

On a smaller scale, the government has also established the Bahrain Development Bank, with initial capital of BD10m, to foster small local businesses by offering loans, venture equity stakes and management consultancy. Last month the bank approved its first four loans, worth a total of BD500,000, and is processing applications from a further 90 businesses and individuals.

'Bahrain's best business ideas are frequently copied by other Gulf countries'

The bank is not only Bahrain's first development institution – something all other Gulf states possess. It hopes also to become a semi-independent repository of economic and financial advice on the island. Most other sectors of the economy have also geared up behind Bahrain's new drive. The airport, for instance, last year added nine new carriers to the 29 previously using the island in what its officials describe as a new "open skies policy with a touch of common sense."

Multinational aluminium companies are being courted, with some success, to develop the island's industry downstream of Alba, its large smelter. Travel writers are being flown in to help crank up Bahrain's embryonic international tourism industry. In fact, the government is candid about being open to almost any offers.

"We are trying to develop any angle of anything that can be developed," says Sheikh Khalifa bin Sulman al-Khalifa, the prime minister, straightforwardly.

The trouble is, as Bahraini officials will grimly concede, so too is Dubai. Although Bahrain is promoting its location as a hub, its congenial and liberal atmosphere, its good communications systems, so is its rival emirate to the south – with some justice.

Bahrain certainly has some edges over Dubai, particularly in its better developed legal system, more developed financial services industry, and higher standards of financial regulation. Against that, though, Dubai has more money and more free land.

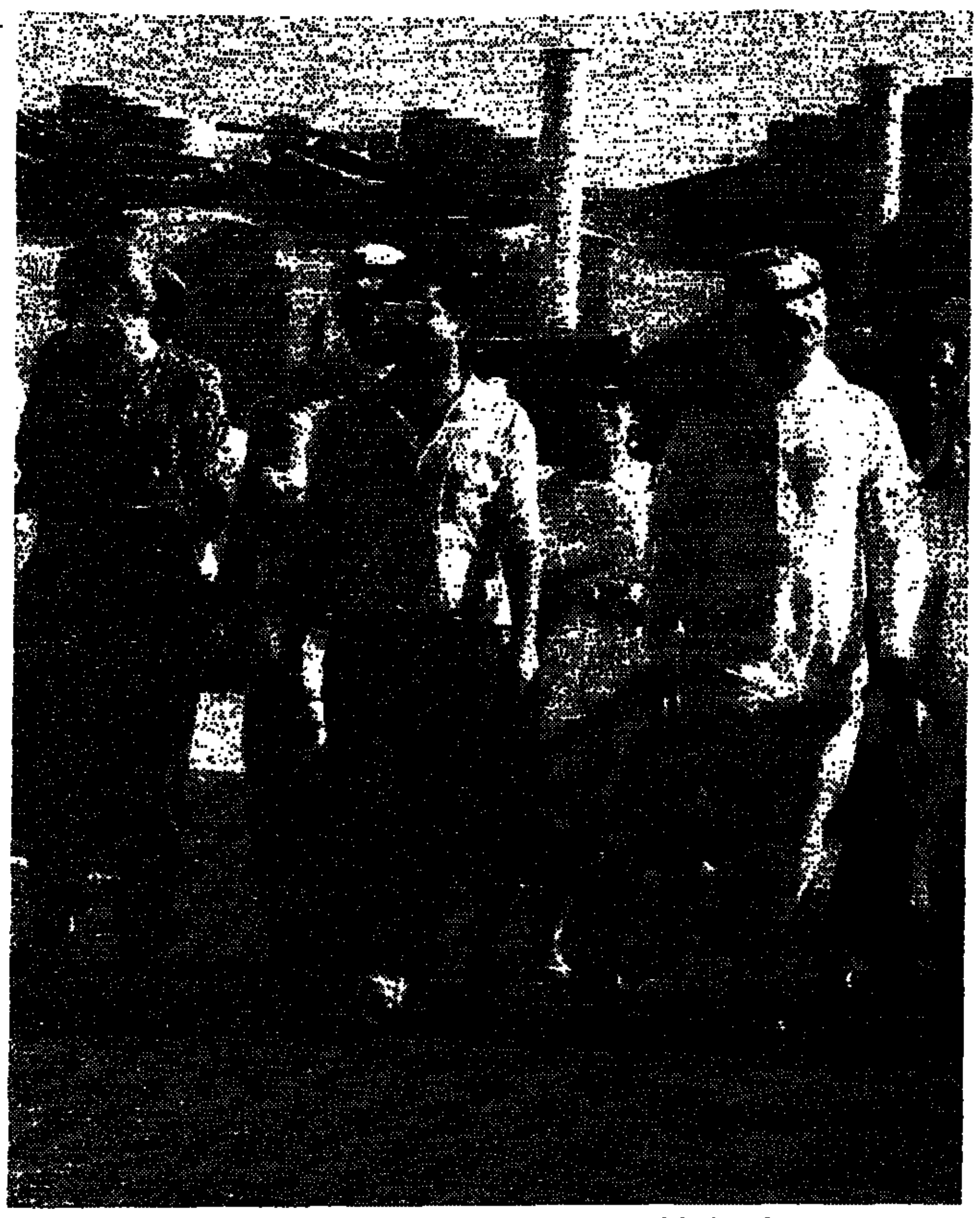
These latter advantages make it the galling fact that Bahrain's best ideas can be, and often are, snaffled and duplicated by Dubai – or indeed by other Gulf states. Dubai, for instance, has followed Bahrain in building an aluminium smelter; Iran is now building another, and Qatar and Saudi Arabia are also bearing the idea in mind. "I believe we have good ideas, we have a good basis for development," says Sheikh Khalifa. "But business goes mostly to where there is more liquidity."

The difficult truth for Bahrain (a truth the government well knows) is that the poorest of the Gulf Co-operation Council (GCC) states (the members are Saudi Arabia, Kuwait, United Arab Emirates, Oman, Qatar and Bahrain) is always the one to suffer most from the six countries' predilection for duplicating each other.

"There is simply no recognition here of the division of labour," reflects Mr Hubail.

Until the GCC puts more emphasis on its middle initial, therefore, the success of Bahrain's new marketing drive will depend largely on factors outside its control.

Mark Nicholson



More than 120,00 non-Bahrainis live and work among the people of the island-state

TOURISM

The bright lights beckon

BAHRAIN's biggest tourist attraction dare not speak its name.

However hard the island markets its virtues as a tourist destination – and the government is marketing these more vigorously than ever – it will not advertise its liberal drinking laws as being among them.

Islamic propriety prevents the government from selling Bahrain on the basis of its bars. But since Bahrain's neighbours prevent the selling of alcohol altogether, little selling is required.

More than 1.4m people arrived in Bahrain last year for tourism or recreation – 75 per cent of them fellow Gulf Arabs. An average of around 160,000 of these visitors a month arrived over the 25km causeway which links Bahrain to the eastern province of Saudi Arabia, which is very strictly teetotal – "the Saudis, very bluntly, come here for R and R," says one official.

It would not be entirely accurate to claim that these visitors all crossed into Bahrain just for a weekend drink (by far the majority cross only for the day and a half of the Moslem weekend) – although numerous expatriate workers with Saudi Aramco, the kingdom's giant oil company based over the causeway in Dhahran, make no bones about the fact that they do.

Whatever Bahrain's additional attractions, and these include a good number of Arab and western-style nightclubs, several top-of-the-range hotels and restaurants and a generally accommodating atmosphere, Bahrain's weekend popularity adds up to an industry worth, by government estimates, more than $1bn a year – more, if the figure is correct, than its aluminium smelter, for instance.

It also adds up to a growing and labour-intensive industry which the emirate is, given its acute need to create jobs for young Bahrainis, exploiting to the hilt.

According to government figures, the hotel industry in 1990 employed just 656 Bahrainis out of a total workforce of 3,249. However, Mr Tariq Almoayed, the minister of information who is responsible for tourism, believes that as many as 10,000 Bahrainis could eventually be employed in the sector.

On the path to that, as yet far distant, dream, Bahrain has set up a hotel and catering training centre, which injects 200 Bahrainis a year into the industry and which this year will add a year-long course in travel and tourism to its curriculum.

The island is also adding fast to its hotels, particularly those of two- and three-stars which cater for the bulk of visiting Saudi and other Gulf families, on the basis that each new room equates roughly to one new job. Bahrain already has 23 two- and three-star hotels and an additional 10 are being built. "With relatively small investment, you can create very large opportunities for employing Bahrainis," says Mr Almoayed.

The government's Tourism Development Company is also expanding – to the extent that it can afford – the range of attractions offered on what is, to be honest, a fairly small and featureless island. The company has set up bus tours, dhow trips to nearby Dar island and has just completed an impressively housed Arabic restaurant, in full wind-towered Gulf style, beside the equally impressive new museum on the emirate's north coast.

More than 1.4m people arrived in Bahrain last year for tourism or recreation – 75 per cent of them from neighbouring Arab countries

The company also helped establish the island's first beach club at Al Bander, which gathers an excellent fish restaurant, bars, holiday apartments, a swimming pool and tennis courts round a small, man-made cove.

But the Al Bander development, to be followed shortly by the opening of a new Meridien resort hotel – the island's first such – on a spit of land off Bahrain's northern shore, points up some of the limitations the island faces in promoting itself, as it is also seeking to do, as a rounded, upmarket tourist spot.

To begin with, the island is acutely short of beaches. In fact, Bahrain at present has only one public beach to speak of – the Emir's beach to the south of the Emir's beach to the island's south. The Al Bander beach has been hewn and sanded out of otherwise rocky coast, and the Meridien will also have to create its own sandy shores.

Moreover, much of the country's coast will be impossible to develop for tourism – the east coast houses most of the island's heavy industry, much of the west coast is taken up by private villas and the dagger-tip south coast embraces the island's main airbase and is thus firmly out of bounds.

The government hopes, nevertheless, that the Meridien and Al Bandar will create what one official calls a "small critical mass" to pump-prime further private sector investment into developing upmarket tourist features. One hope is that the island's five five-star hotels will loosen out of being purely business hotels into providing a bit more tourist fun.

But in aiming further upmarket and away from purely causeway-fed tourism, Bahrain suffers badly from comparison with Dubai, its go-getting United Arab Emirates rival further down the Gulf. Dubai's aggressive bid for the same tourist market is already supported by three large resort hotels, one grassy golf course, with another on the way, long stretches of sandy beach and, most important, by something in the region of 10 times Bahrain's oil revenues with which to invest further in tourist attractions. A large theme park, for instance, is already well into planning.

Bahrain's hope is that visitors will include the island as one stop on a regional Gulf tour – though at present, inter-Gulf co-operation on tourism is as fraught with rivalry as other areas of regional economic endeavour. Nevertheless, the island's promoters have persuaded the South African airline Flitestar to open weekly flights to Bahrain later this year carrying what, for the most part, will be tourist passengers.

In the end, though, it will be the bright lights visible from Saudi Arabia, promising Egyptian and Filipino nightclub entertainers, a small feast of Italian, Greek, Arabian, Chinese and Indian restaurants and, of course, the odd glass of Johnnie Walker, which will keep Bahrain's future hotel and catering school graduates busy on a Thursday and Friday evening.

Mark Nicholson

Roger Matthews on the prospects for political change

Economic changes add to the strain of adaptation

IN AN ideal world of petro-dollar surpluses and friendly neighbours, the need for change would not even be raised. But ruling families along the western shores of the Gulf are increasingly having to face the same broad issue of how much or how little political adaptation may be required to meet a markedly new set of economic circumstances.

The fact that new political structures are being erected, albeit at a snail's pace, reflects the impact of unfriendly neighbours, flat oil prices, a high level of defence expenditure and the prospect of persistent budget deficits.

Oman now has a consultative council which has been asking ministers some hard questions. Saudi Arabia, after more than a decade of waiting, is to have its own consultative body – but with powers and membership still to be defined. Kuwait goes to the polls in October to elect a national assembly. If it is anything like its predecessor, forcibly dissolved in 1986, ministers may again be in for a rough ride.

It would be wrong to conclude from this that the Gulf is in the first flush of a democratic experiment. On the contrary: the experience of Algeria will have confirmed governments in their view that political liberalisation is a topic to be approached with the greatest caution.

Bahrain was seen, in the years immediately after independence, as a democratic model for the region. But in 1975, after clashes with the government, the national assembly was dissolved, never to be resurrected. Sheikh Khalifa bin Sulman al-Khalifa, the prime minister, is not unhappy with the concept of a consultative council for Bahrain, but has said that his country will not lead the region on this issue – "we cannot be singled out to be the good Samaritan," he said, during an interview. There is particular reason for the prime minister's caution. There are 336,700 indigenous Bahrainis and more than 60 per cent of these are Shia Moslems. The ruling family is Sunni. After the revolution in Iran in 1979, and the creation of an Islamic republic under the spiritual guidance of Ayatollah Khomeini, the export of militancy became one of the central aims of the regime.

Bahrain, with its majority of Shias (many are of Iranian descent), was a ready target. The Tehran government urged Bahrain's Shias to demonstrate against their rulers; from 1979 until 1986 a series of incidents on the island ranged from demonstrations to discoveries of arms caches. The efficiency of Bahrain's well-staffed and British-advised security forces contained the threat until the exhaustion of the revolution in Tehran. However, the Iranian political establishment is far from monolithic. Whatever the protestations of President Ali Akhbar Hashemi Rafsanjani, Bahrain will remain watchful both of Tehran and of any militant tendency within its own borders.

The squeeze on finances is placing a strain on the provision of free public services such as health and education. Modest attempts have been made to boost revenues, although income tax is deemed to be politically impossible

This situation easily explains why Bahrain is not tempted to make even modest political experiments. The foundations on which the existing system rests, however, must eventually also become less secure as, in common with governments throughout the Gulf, Bahrain finds itself unable to provide all the benefits to which its citizens have become accustomed. The overall rate of population increase is estimated at 3.4 per cent; job creation is already one of the government's main preoccupations.

Unemployment is officially put at 6.4 per cent, but western embassies believe it may be much higher; some estimates show it running at up to 20 per cent. (In part that might reflect the local distaste for particular forms of employment, and for less secure private sector jobs.)

The squeeze on government finances also places additional strain on the provision of free public services such as health and education. Some modest – and heavily disguised – attempts have been introduced to boost tax revenues, but more direct methods, such as an income tax, are deemed to be politically impossible.

It is hardly surprising that the efficient management of the economy is coming under closer scrutiny, especially by Bahrainis who have been educated abroad. Their comments on the lack of co-ordination between ministries, the allocation of resources, the competence of some senior officials and the dispensation of patronage are a strong counterpoint to the official mood of self-confidence and economic optimism. But even that appears to wear a little thin when conversations turn to the commitment and competence of the younger generation to assume political responsibility.

It should also be remembered that Bahrain is where other Gulf Arabs come to relax. Bars, discotheques, uncensored news, some of the best restaurants in the region and the cabin crews of Gulf Air International give Manama an atmosphere not found anywhere else in the region. Bahrain comes better-prepared than more rigidly controlled societies to accommodate the political changes which eventually will have to be made.

Sheikh Khalifa bin Sulman al-Khalifa, the prime minister: he expresses caution

FOREIGN POLICY

Tensions below the surface

WHEN the leaders of the six members of the Gulf Co-operation Council (GCC) gathered in December 1990 in Doha, the capital of Qatar, it was obvious to an non-participant what was going to dominate the agenda.

Kuwait, one of its members, had been invaded and annexed by Iraq four months earlier. Despite efforts at mediation and a desire to find an Arab solution, the military build-up headed by the US was going on apace. Although few governments then believed that President Saddam Hussein would not extricate himself at the last moment from the threat of war, the affluent states of the Gulf faced, none the less, their most serious challenge since independence.

Perversely, the GCC members found they had a more pressing issue to discuss.

While the rest of the world struggled with the ambitions of President Saddam Hussein of Iraq, the Doha summit was largely preoccupied by the dispute between Qatar and Bahrain over the border between the two GCC neighbours. Eighteen months later – with Saddam's forces driven from Kuwait, the al-Sabah family restored to power and the oil fires extinguished – Bahrain and Qatar are still at loggerheads.

The argument between the two ruling families and governments is one of several left behind by Britain when it withdrew from east of Suez. Kuwait is in the process of winning back some territory absorbed, since the 1970s, by Iraq; Iran appears to be trying to wrest from the United Arab Emirates total control of Abu Musa island at the mouth of the Gulf; Saudi Arabia and Yemen are exchanging angry words over oil exploration along part of their disputed border, and elsewhere there are several other territorial issues which could flare up again at any time.

The Gulf Co-operation Council faces complex regional problems

These arguments are not easily susceptible to mediation. First, they often involve strongly held beliefs and intense personal and tribal rivalries. Second, there is invariably an economic aspect – in particular, the right to explore for hydrocarbons. Furthermore, the parties involved in the dispute may well suspect each other of pursuing an unseen agenda, perhaps involving more powerful players in the region.

Such suspicions have contributed to the disappointing performance of the GCC as an effective political and economic organisation – a failure particularly regretted by Bahrain.

In part, it reflects the GCC's difficulty in finding a role for itself among the region's competing forces. In the four-way pugilistic context of the past decade, Saudi Arabia and its five smaller partners have occupied one corner, with Iraq in another, Iran in the third – and the fourth occupied by the US, which until recently viewed the Gulf as a crucial area of superpower confrontation. The only overall winner from this complex mesh of conflicts appears to be the US, with its military mastery of the region and its parallel grip on an important part of the world's oil supplies.

The benefits, beyond the removal of an Iraqi military threat, are less obvious for small nations such as Bahrain. Ministers who expected greater regional harmony in the wake of the Iran-Iraq war and the Kuwait crisis have been disappointed. Worse: they see the resumption of old rivalries – with no apparent attempt by the remaining superpower to resolve them.

Sheikh Hamad bin Isa al-Khalifa, Crown Prince and commander-in-chief of the Bahrain Defence Force

Bahrain's rulers remember all too well that not until 1975 did Iran agree not to pursue its claim to their country. Four years later, Iranian designs on Bahrain re-emerged as part of the revolutionary fervour orchestrated by Ayatollah Khomeini. Some Manama residents sense in the present Iranian ambassador an extension of that proprietorial attitude.

Qatar is also pursuing its claim to part of Bahrain, while seeking to improve relations with Tehran. Such a rapprochement can be seen as an entirely sensible move by Doha – given that Tehran also has access to its huge offshore North Field structure, containing one of the world's largest gas fields. However, several Arab commentators have already sounded the alarm, warning Qatar of "opening a door to Tehran that it would not later be able to close." They have also speculated that Qatar is using its closer ties with Iran as a way of increasing pressure on Bahrain.

Officially, little of this breaks the surface. Statements by Bahrain are couched in conciliatory language; Mr Tariq Almoayed, the minister of Information, says the government is more disappointed than irritated at Qatar's decision to go alone to the International Court of Justice rather than to make a joint application – as had been agreed by the two countries. He adds that there may be a need to look at the entire border between the countries – a reminder, perhaps, that historically Bahrain has laid claim to Zubara, part of mainland Qatar. Bahrain's renewed plea for a joint approach to the international court was again rejected by Qatar at the beginning of this month. Foreign diplomats in Bahrain are confident that the argument can be resolved amicably. But they recall that in 1986 the two sides came close to blows, when the Qatari navy seized foreign workers constructing a coastguard station for Bahrain.

Qatar is seeking closer ties with Iran while still claiming part of Bahrain

Bahrain's call for better relations with Iraq is officially placed within the same broad context of its desire for greater Gulf harmony. It is a policy development which will be interpreted differently in various capitals, but it broadly represents Bahrain's frustration at its inability to plan a more secure economic future, and its sensitivity to continuing claims to its territory. If the US State Department was at all surprised by Bahrain's more flexible attitude towards Baghdad, it may be because Washington has yet fully to appreciate the longer term consequences and responsibilities of having demonstrated so emphatically its capacity to act as the Gulf policeman.

Sheikh Isa bin Sulman al-Khalifa, the Emir, rarely misses an opportunity when in the presence of Britons to express both his appreciation for the British government's military contribution during the Gulf War and his wish to see London playing a more vigorous and visible role in the region.

It is a message heard elsewhere in the Gulf, and it has a greater emphasis now that Washington's influence is so much less qualified throughout the Middle East. Keeping a sense of balance can apply almost as much to friends as it does to enemies.

Roger Matthews